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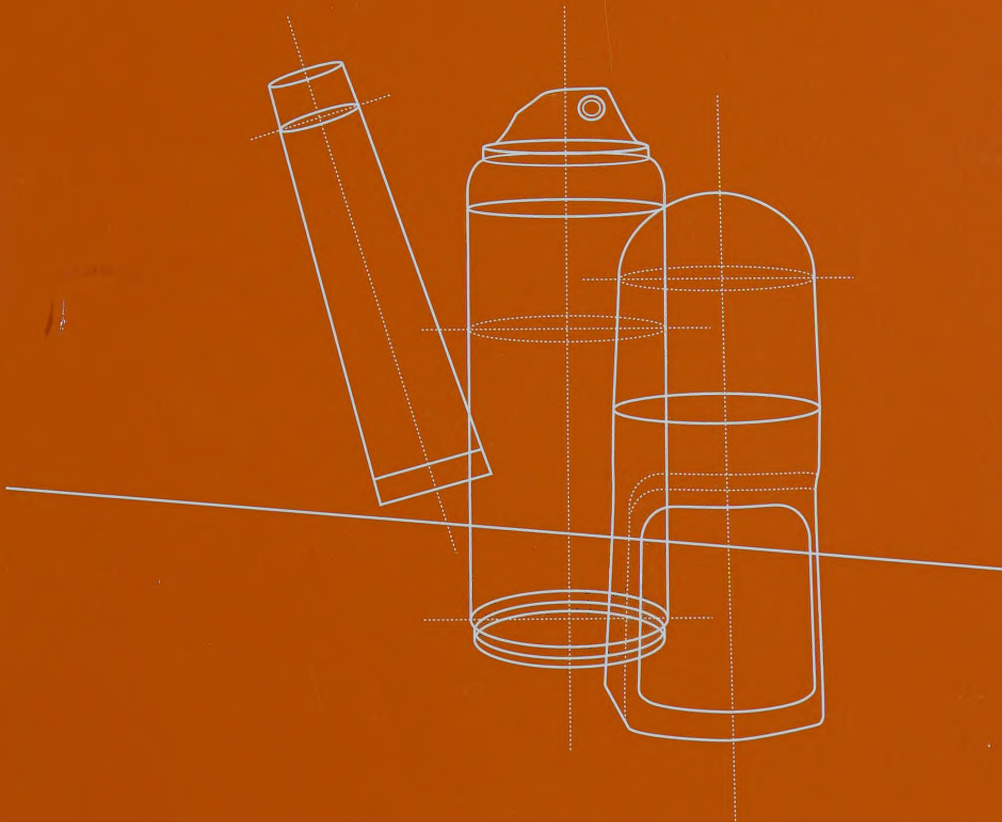
# Bringing it to life

CCL Industries Inc. 2003 Annual Report



From concept to store shelves, at CCL we work with our customers to bring more products into the lives of consumers. Our customers know they can rely on us to deliver on their packaging expectations. That trust is the focus for all we do. It has to be that way when you provide product solutions that touch people's lives each and every day.

At CCL Industries, our business is developing innovative manufacturing, packaging and labelling solutions for some of the world's largest producers of consumer brands. We are a global company with a solid customer base that includes Procter & Gamble, Unilever, Gillette, Nabisco, Schering-Plough, Johnson & Johnson and many others. They look to us as a partner that can anticipate their needs and respond quickly, intelligently and with the highest standards. That's CCL.

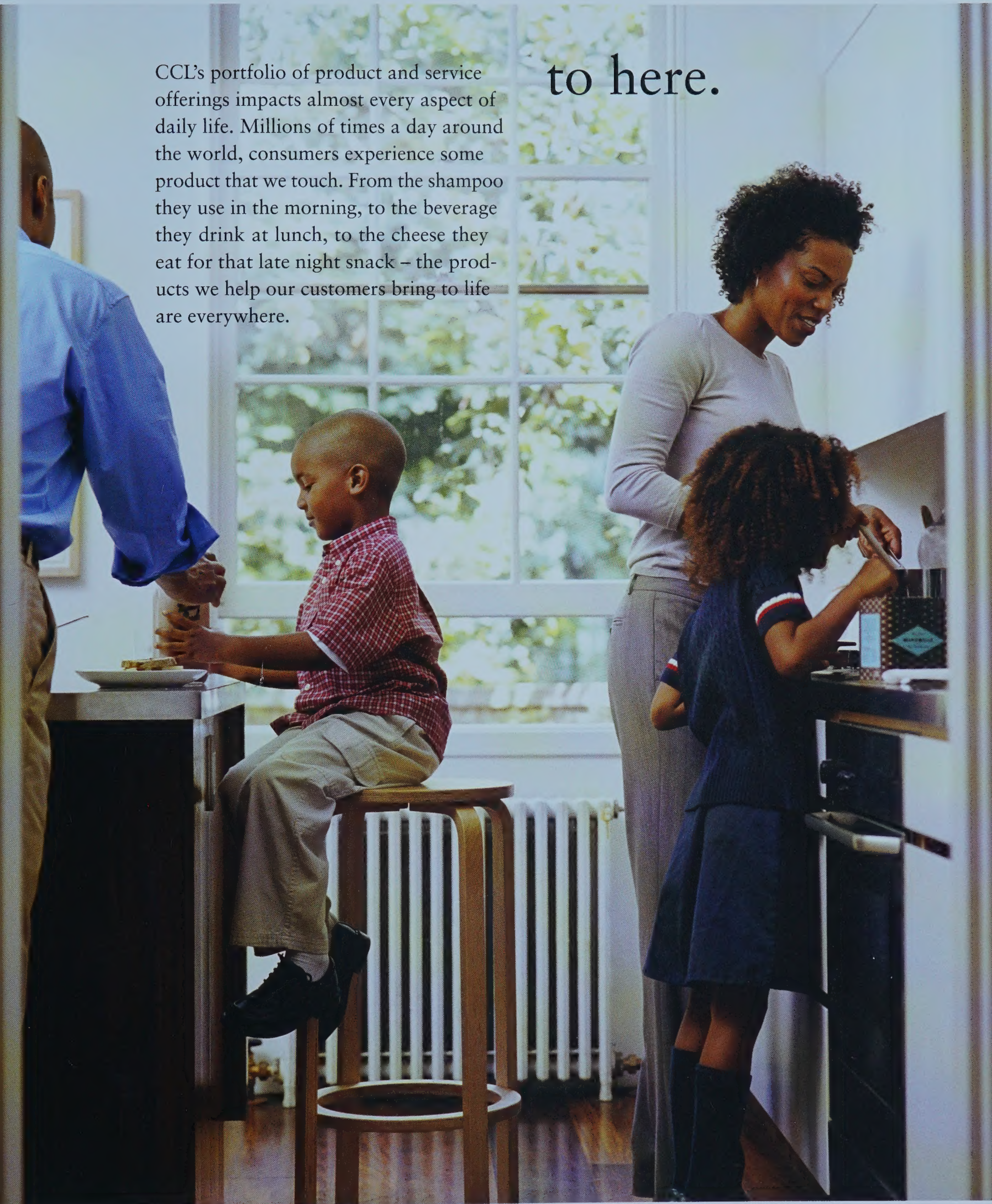

DOCTOR BURT'S
TOOTHPASTE
adidas
FOR MEN
Game Spirit
Dove
Powder
ROLL-ON

As the retail world continues to exert pressure on the marketers of consumer products, trusted suppliers like CCL become more integral to a product's journey from concept to production line to store shelf to consumer. Whether our involvement comes at the design stage, the manufacturing stage, the packaging stage or the labelling stage – our customers know they can rely on our expertise to deliver the kind of quality products that are worthy of their brand.

# From here...

# to here.

CCL's portfolio of product and service offerings impacts almost every aspect of daily life. Millions of times a day around the world, consumers experience some product that we touch. From the shampoo they use in the morning, to the beverage they drink at lunch, to the cheese they eat for that late night snack – the products we help our customers bring to life are everywhere.



Where would we be without consumer products that resonate with comforting familiarity, quality and performance and deliver on their brand promise each and every time. For more than 50 years, CCL has worked with leading international marketers of consumer products to help ensure that their trusted brands never disappoint.


# Trusted brands…


# to new innovations.

CCL constantly explores opportunities to bring new ideas and new ways of doing things to our customers. Whether it is helping our customers with a new product, label or packaging, revitalizing an older brand or re-thinking operational processes – the spirit of innovation is integral to how we operate.

# Letter to Shareholders

Although 2003 presented many challenges including a sluggish economy in some of CCL's business sectors and the depreciation of the United States dollar, CCL continued to make excellent progress in the key areas that have been the Company's focus for the past few years. These critical areas include: improvement in our operating performance; enhancing our cash flow; and increasing the value proposition to our customers through cost improvement, and the development of innovative products and services. Considering that 60% of CCL revenues are in U.S. dollars, the impact of CCL's financial improvement would be more apparent if not for the effect of the 22% appreciation in the Canadian dollar relative to the U.S. dollar in 2003.

Net earnings per Class B share in 2003 were $1.64 compared to $0.65 in 2002 and would have increased an additional $0.12 for the year excluding the negative effect of currency translation. CCL's sales decreased 9.9% in 2003 to $1.5 billion – however when divestitures and currency translation are excluded, sales remained flat with 2002. The Company continued its strong cash management programs, generating cash from operations to fund both capital investments and acquisitions. With return on equity at 13.5% in 2003 compared to 11.5% in 2002, we continue to make good progress toward our 2005 target of 15%.

All of CCL's divisions performed well and maintained their leadership positions within the marketplace despite an unpredictable business environment. Major marketers continued to look to their supply chain for assistance in keeping their competitive position in the face of increasing retailer strength. Such pressures resulted in consumer product marketers reducing the number of their suppliers and demanding greater supply chain efficiencies on a global scale. CCL's ability to work with our customers to lower costs and offer innovative manufacturing, packaging and labelling solutions has made us the supplier of choice within the industry. We have further increased our value proposition through an eBusiness strategy, which enhances critical communication with customers and suppliers, and reduces time to market and inventory levels throughout the chain. Our Custom Manufacturing Division continues to be a leader in this area.

Considering that the non-durable sector of the market in the U.S. grew at only 0.1% in 2003, CCL actually grew its leadership position, particularly in the personal care business.

Donald G. Lang
*President and Chief Executive Officer*

In order to support this growth CCL entered into a recapitalization program, which in 2003 provided for $112 million of investment in new equipment and building expansions resulting in added capacity and increased efficiency. A new line was installed in the Container Division's Penetanguishene ON plant in the last quarter of 2003 and a second new line will be running by mid-2004. New and innovative shapes, and the resealable aluminum bottles, have been huge winners in both the personal care and beverage markets. As a result a third line has now been ordered to support this tremendous growth.

In 2003, we continued to organize and equip our Label plants according to the market focus of personal care, healthcare and specialty products. This initiative resulted in the purchase of new presses and the relocation of our California site to a more efficient and cost-effective facility that is better able to support our pharmaceutical customers. We also upgraded our site in Hightstown NJ, a dedicated healthcare facility by relocating the non-healthcare label business, completing a major reorganization and equipping the facility solely focused on the growing healthcare market.

In our Custom Manufacturing business we invested approximately $6 million to expand our aerosol facilities in Laupheim, Germany to improve efficiencies, and in Scunthorpe, United Kingdom, to consolidate aerosol products from our Grimsby plant, which was sold in 2003.

CCL's strategy over the last four years has been to focus on our core businesses and divest those businesses that are non-core or under-performing. We made significant progress in the execution of this strategy in 2003 with the sale of four of the Container Division's non-strategic business units. This Division is now focused on their fastest growing and most innovative sector of the market, the manufacture of extruded aluminum containers and plastic tubes and closures for the personal care, beverage, specialty food and automotive markets.

Cash from these divestitures, in combination with our strong cash flow, allowed CCL to invest in the divisions with the greatest opportunities – specifically in new equipment, acquisitions and joint ventures. This resulted in substantial growth in the Label Division without increasing CCL's debt.

In 2003, we extended our Healthcare Solutions product line with the acquisition of Lucas-Insertco, a company that manufactures instructional leaflets for the pharmaceutical industry. We also expanded our presence in Europe with the acquisition of Avery Dennison's European Label converting business. With locations in Denmark and France, this business specializes in producing labels for the personal care and pharmaceutical markets. And we entered into a 51% CCL controlled joint venture with Pachem, a specialty label company in Austria and the United Kingdom that services the food and beverage markets. This partnership also provided CCL with new technology and know-how for its North American operations. CCL Label is now the largest provider of pressure sensitive labels in both North America and Europe.

With these acquisitions and our new greenfield Label plant in Thailand, which became operational at the end of 2003, CCL is now able to supply customers on a more global basis. This has become increasingly important as major marketers reduce their supply base and increase their expectations of their outsourcing and supply partners to support them around the world.

Innovation is also key to increasing CCL's value proposition. We responded to growing demand for unique packaging for the beverage and personal care markets by continuing to invest in our aluminum container shaping operations. We also worked with a major marketer to introduce a revolutionary new concept – peanut butter in a plastic tube – by providing the tube, closure and label. Partnerships can also spawn innovation; such as the one that was finalized in January 2004 with Weener Plastik Packaging Group, a German specialty closure company. This licensing agreement will enable CCL to add a wide range of innovative closure and dispensing systems to its current product line.

Over the last few years I have expressed the need to have the right people in the right positions at all levels. A skilled and motivated workforce is critical to our long-term success. At CCL we are fortunate to have such a team.

Last, but certainly not least, is the importance of an experienced and independent Board of Directors. CCL's Directors have a broad range of industry experience with two thirds of the Board considered independent under the TSX recommended guidelines. In 2003, we were pleased to welcome Tom Peddie to the CCL Board. He brings extensive business experience and a strong financial background to his role as Director and member of the Audit Committee.

Looking back over the last four years we have accomplished a great deal. CCL is a much more focused, better performing company. Our strategy has served us well, resulting in a solid foundation for future growth. We will continue to take a long-term perspective, making prudent decisions in how we grow the business. New opportunities, whether acquisitions or joint ventures, will be carefully evaluated on the basis of strategically growing CCL's core businesses, increasing our value proposition for our customers, and bringing immediate value to our shareholders – of course all the while maintaining a healthy balance sheet. And we will complement this growth through focused capital investment to add capacity and provide new products and services. We believe that with the caliber and expertise of today's CCL team, we can realize our goals for 2004, and create long-term sustainable value for our shareholders, customers and employees.

**Donald G. Lang**
*President and Chief Executive Officer*

**Jon K. Grant**
*Chairman of the Board*

# Strengths

Why do so many leading consumer product marketers call upon CCL to help bring their products to market? The answer can be found in our strengths – strengths that define and colour every aspect of who we are. Quality to the core, non-stop innovation, accountable leadership, engaged employees and a commitment to communities – that's what customers see. That's what customers get.

That's CCL.

# Quality to the core

CCL's commitment to quality is at the heart of what we do – in the products we help bring to market and in our adherence to the highest standards of customer service.

Customers trust us with their most precious asset – their relationships with consumers. And that is a responsibility we do not take lightly. We work hard to ensure that each product experience is what it should be – like the new Comfort Hold aluminum containers developed by the Container Division, which combine aesthetic appeal with compelling ergonomic advantages for the consumer. Or the innovative dispensing systems, developed by our Plastic Packaging Division, which give new life to "old" products like peanut butter, by making them easier and more fun to use in a plastic squeezable tube.

In addition to providing high quality products, our divisions constantly raise the bar on the definition of excellent customer service. Through acquisitions, capacity enhancements, or new joint ventures, CCL is continuing to re-invest in the business – thereby enabling us to better serve customers' capacity requirements and geographic needs. New aerosol lines at Custom Manufacturing's facilities in Danville IL, Cumberland RI and Scunthorpe in the U.K.; two new high-speed aluminum extrusion lines at the Penetanguishene ON Container facility; and the acquisition of Avery Dennison's European Label converting business are just a few of the initiatives that have helped to further solidify key customer relationships.

And when you add to that – the continuing focus on improving all aspects of customer service including quick turnaround and shorter response times, it is no wonder that CCL's divisions were awarded prestigious industry awards such as the Mary Kay "Vendor of the Year," the Alberto Culver "Global Supplier of the Year" and the Procter & Gamble "Pinnacle Award."

# Non-stop innovation

For many of our customers, CCL means "innovation," "creativity" and "solutions." That is why they come to us when they have something new they want to bring to market; if they have a trusted brand that needs new life; or if they want to find new efficiencies within their operational processes and supply chain.

The year was full of exciting new product offerings; some internally developed, others resulting from licensing agreements. The launch of Post-Consumer Resin plastic tubes enabled one of our customers to offer product packaging consistent with their environmentally friendly mission. The Container Division's cutting-edge work in the area of shaped aluminum bottles with resealable closures offered opportunities for increased brand differentiation and numerous consumer benefits. And on the licensing side, our agreement with Weener Plastik Packaging Group will enable CCL Plastic Packaging to meaningfully expand what it can offer its North American customers. Awards won by CCL such as Gold and Silver at Cannex 2003, and the Tube Council's "Ted Klein Tube of the Year" attest to its creative contribution to the industry.

In addition to providing unique products, we look for creative, yet fiscally prudent ways to better serve our customers, lower costs and add to our value proposition. Acquisitions, such as CCL Label's purchase of Lucas-Insertco, form a key part of our expansion strategy. These transactions enable us to grow with our key pharmaceutical customers, provide them with critical global support and enter new markets. We are also exploring new service offerings that will leverage our considerable internal technical expertise. Finally, Custom Manufacturing has led the way in our supply chain strategy, attaining significant success in using technology to shorten and thereby reduce the costs of the supply chain for national marketing customers.

Integral to such innovation success stories are the Continuous Improvement teams that can be found in many CCL facilities. These cross-disciplinary teams, comprising employees from all levels, strive to discover better approaches for dealing with everything from manufacturing throughput to working capital management.

# Accountable leadership

Leader. At some organizations, the word merely describes the person with authority. But leadership also means responsibility. At CCL, leadership is a spirit; a philosophy of operating – one that results in a powerful sense of accountability on the part of all employees and Board members.

Starting with a strong, independent Board of Directors, CCL stands out with its reputation for solid corporate governance values such as careful fiscal management and prudent reinvestment. With the diligent support of this Board, our senior management team continued to further strengthen CCL's position as a world leader in its industry.

The soundness of CCL's management team is reflected in the many successes of the past year. The Container and Plastic Packaging Divisions won numerous awards in recognition of their excellence in innovation and their dedication to customer service. CCL's Label Division finalized strategic acquisitions and joint ventures that solidified it as a force to be reckoned with on the global stage. The Custom Manufacturing Division signed a multi-year agreement with a major marketer for the annual supply of approximately 30 million units of products. And, CCL's CEO Donald Lang, ranked highly in a rating of Canada's CEOs by a respected national business magazine – a public recognition that CCL employees and the industry have long known.

Corporate achievements such as these bear testament to the robust management expertise that can be found at the senior management levels – though the demonstration of CCL's leadership spirit does not end there. As one long-time CCL employee put it "you don't have to be a manager to be a leader." And it is this ethos that is seen in every employee who participates in the Continuous Improvement process and takes advantage of every opportunity to improve processes and the quality of work.

# Engaged employees

At CCL, our employees' knowledge, expertise, and hard work have made us into the industry leader we are today.

But a vibrant corporate culture, does not happen by chance. Whether it is a leadership course, a literacy skills initiative, technical training, or a Continuous Improvement project to increase output or improve health and safety performance – CCL employees take advantage of the many opportunities to develop themselves and their skills.

In addition to formal development initiatives, our managers are always looking for new opportunities that will broaden the experience of their teams. Such was the case of an experienced press operator from the Charlotte NC facility who worked in the new Thailand location to assist with our start-up there.

CCL's reputation as a trusted outsourcing and supply partner speaks to the importance of our talented employee base.

# Commitment to communities

Restoration of a heritage site. Raising money for the American Heart Association. Environmental clean-up of a river. Volunteering at the local Boys and Girls Clubs. Donating to the Red Cross Blood Drive. Raising money for a local Ronald McDonald House.

This is just a small sampling of the many, many projects to which CCL employees have given their time, money and hearts. CCL is proud of the contributions that our employees have made to the communities in which we operate.

Good citizenship has been a hallmark of the Company since our earliest days. Whether it is by providing funds to charitable organizations, encouraging and assisting employees in their local volunteer efforts, or maintaining watchfulness over our environmental practices – CCL will continue to give back to its communities.

# CCL at a Glance

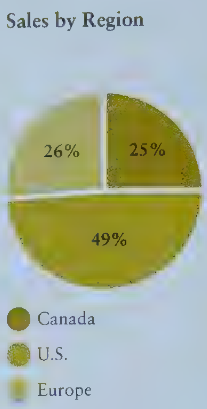
**Paul Cummings**
*President,*
*CCL Custom Manufacturing*

## CCL Custom Manufacturing

### Our business

CCL Custom Manufacturing is the largest contract manufacturer of consumer products in the world, with plants in the United States, Canada, the United Kingdom and Germany. We provide value-added outsourcing solutions to the world's leading marketers of brand name products in the following categories: personal care, over-the-counter (OTC) medicated, oral care, specialty food, household, automotive and industrial products.

Our expertise includes: formulating, filling and packaging; process and product development; project planning and consulting; purchasing; and seamless systems integration with customer and supplier networks to ensure timely product delivery and supply chain efficiency.





**Rami Younes**
*President,*
*CCL Container*

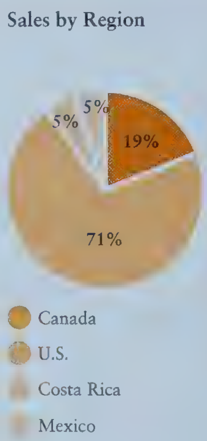
**Gene Dorsch**
*President,*
*CCL Plastic Packaging*

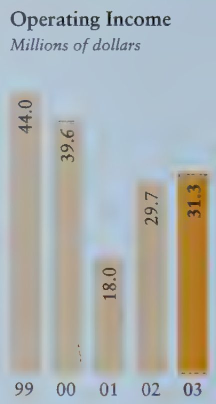
## CCL Container

### Our business

CCL Container, comprising two divisions – Container and Plastic Packaging – is a leader in the creation of unique packaging solutions with facilities in Canada, the United States and Mexico. We supply unique and highly decorated packaging solutions to the world's leading marketers in a wide variety of sectors, including: personal care and cosmetics, pharmaceutical, food and beverage, household and industrial.

We are constantly exploring new concepts, materials and marketing trends in order to provide our customers with vibrant, eye-catching and convenient packaging solutions. Our technological expertise allows us to provide consumer product marketers with the latest in packaging innovations.



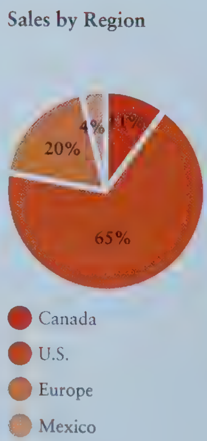



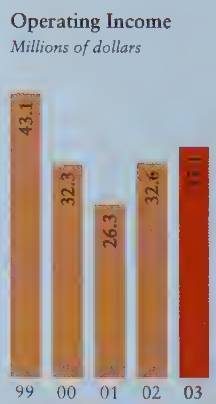

**Geoffrey Martin**
*President,*
*CCL Label*

## CCL Label

### Our business

CCL Label is the leading global supplier of decorative, informational and promotional labels to the world's largest consumer product and healthcare companies. In addition to the 15 facilities in the United States, Canada and Mexico, we now have 10 sites in important strategic locations across Western Europe and in Asia. Our plants deploy state-of-the-art label converting technologies in all these locations to provide our customers with innovative, secure labelling solutions of the highest quality coupled with leading edge supply chain techniques. We will continue to acquire or deploy these technologies close to strategic customers around the world.



### )ur products

CL Custom Manufacturing roduces more than 700 products a variety of formats: aerosols, quids, creams, lotions, pastes nd solid sticks. Our extensive roduct offering runs the gamut om hard surface cleaners to nampoos and conditioners, to ntiperspirants and over-the-ounter and medicated products ncluding sun screens and topical intments.

### Key developments

- Sold Grimsby facility and its household liquid business in the U.K. and successfully transferred its aerosol business to Scunthorpe.
- Began expansion of German manufacturing facility to focus on higher value-added products.
- Expanded post-foaming gel capability in Danville IL facility.
- Improved European performance over 2002.
- Secured new five-year contract with a major national marketer for an annual supply of approximately 30 million units of products.
- Established a pilot plant at our Rexdale ON facility for product and process development activities.

### Outlook

We will continue to expand our service offering within our core business to enhance our value proposition to our customers, and further strengthen our position as a truly differentiated vendor. In addition to increasing capacity through capital re-investment, we will embark on a capacity and throughput enhancement process with the existing equipment. We will also look for strategic acquisitions that are accretive and complementary to our business.

### )ur products

CL Container offers a broad inge of highly decorated and inovative packaging solutions ncluding recyclable aluminum erosol cans, shaped and highly ecorated aluminum containers, esealable aluminum bottles, ost-Consumer Resin tubes, egular and textured or shaped lastic tubes, and specialty ispensing closures.

### Key developments

- Sold Series 400 plastic closure business and associated assets.
- Completed installation of clean environment at Wilkes-Barre PA facility.
- Entered into a strategic alliance with Weener Plastik Packaging Group of Germany.
- Refocused business on rigid aluminum containers and plastic tubes and closures by divesting four non-core business units in the U.S. and Costa Rica.
- Installed two high speed aerosol lines in Penetanguishene ON, that will be operational in 2004.
- Installed new capacity to meet demand for "bag-in-can" barrier technology.
- Equipped three production lines to satisfy growing demand of the aluminum bottle.

### Outlook

We will continue to focus on innovation in order to penetrate new markets and expand our business. From a strategic standpoint, the introduction of innovative containers and closures that better serve our customers' needs will be critical as we move forward. Our strategy will include the addition of new technologies and the ongoing pursuit of increased efficiency to reduce costs and maintain a high level of customer service.

### )ur products

CL Label provides leading onsumer product marketers with choice of decorating technolo-es including converted pressure ensitive films, shrink films and mold labels. We also provide e healthcare industry with secure ressure sensitive identification bels and instructional leaflets. addition, we are a leading sup-lier of security printing services or coupons and games.

### Key developments

- Acquired Avery Dennison's European Label converting business.
- Acquired two insert-outsert businesses from Lucas-Insertco with plants in San German PR and Baltimore MD.
- Finalized the 51% controlled joint venture with Pachem AG, based in Austria.
- Completed relocation of Monrovia CA facility to Upland CA.
- Completed entire refurbishing of the Hightstown NJ healthcare facility including installation of new presses and clean room finishing capability.
- Completed construction of greenfield plant in Thailand.

### Outlook

We will focus on growing our business by developing new applications within the core business, investing in new equipment and new facilities, and assessing selective acquisitions that either give us geographic presence or strategic presence in different market segments. We will also continue to increase all aspects of customer service to ensure that we deliver on our commitment to quality – the foundation of all our customer relationships.

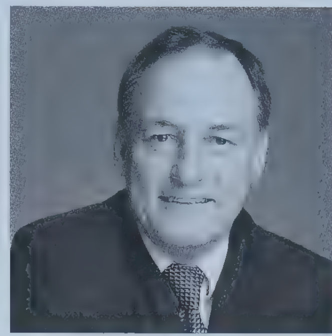
# Financial Highlights

*(in thousands of dollars except share and ratio data)*

| For the year ended December 31 | 2003 | 2002 | % Change |
|---|---|---|---|
| Sales | $ 1,518,421 | $ 1,684,939 | (9.9) |
| Income from operations before undernoted items | $ 168,826 | $ 184,056 | (8.3) |
| Return on sales | 11.1% | 10.9% | |
| Depreciation, and amortization of other assets | 67,385 | 75,785 | |
| Interest | 23,040 | 30,859 | |
| | 78,401 | 77,412 | 1.3 |
| Return on sales | 5.2% | 4.6% | |
| Unusual items (net) | 6,604 | 39,082 | |
| Earnings before income taxes | 71,797 | 38,330 | |
| Income taxes | 18,764 | 16,511 | |
| Net earnings | $ 53,033 | $ 21,819 | 143.1 |
| Return on sales | 3.5% | 1.3% | |
| **Per Class B share** | | | |
| Net earnings | $ 1.64 | $ 0.65 | 152.3 |
| Unusual items included in net earnings (loss) | $ (0.16) | $ (1.05) | |
| Diluted earnings | $ 1.61 | $ 0.64 | 151.6 |
| Dividends | $ 0.36 | $ 0.34 | 5.9 |
| **At year end** | | | |
| Total assets | $ 1,191,859 | $ 1,342,749 | (11.2) |
| Net debt | $ 345,030 | $ 366,279 | (5.8) |
| Shareholders' equity | $ 418,886 | $ 436,996 | (4.1) |
| Net debt to equity ratio | 0.82 | 0.84 | |
| Net debt to total capitalization | 45.2% | 45.6% | |
| Return on average equity (before unusual items) | 13.5% | 11.5% | |
| Book value per share | $ 13.00 | $ 13.10 | (0.8) |
| Number of employees | 6,100 | 7,000 | (12.9) |

# Management's Discussion and Analysis of Financial Condition and Results of Operations

Years ended December 31, 2003 and 2002 *(tabular amounts in millions of dollars except per share data)*



**Steve Lancaster**
*Executive Vice President and Chief Financial Officer*

This document has been prepared for the purpose of providing Management's Discussion and Analysis (MD&A) of the financial condition and results of operations for the years ended December 31, 2003 and 2002. This MD&A should be read in conjunction with the Company's December 31, 2003 year-end financial statements, which form part of the CCL Industries Inc. 2003 Annual Report dated February 19, 2004. The financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP) and unless otherwise noted, both the financial statements and this MD&A are expressed in Canadian dollars. CCL's Audit Committee and its Board of Directors have reviewed this MD&A to ensure consistency with the approved strategy of the Company.

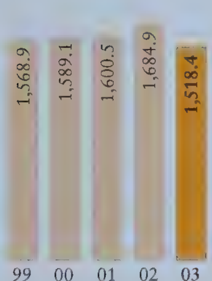
Management's Discussion and Analysis contain forward-looking statements, including statements concerning possible or assumed future results of operations of the Company. Forward-looking statements typically are preceded by, followed by or include the words "believes," "expects," "anticipates," "estimates," "intends," "plans" or similar expressions. Forward-looking statements are not guarantees of future performance. They involve risks, uncertainties and assumptions, including, but not limited to: the impact of competition; consumer confidence and spending preferences; general economic conditions; currency exchange; rates and CCL's ability to attract and retain qualified employees and, as such, the Company's results could differ materially from those anticipated in these forward-looking statements.

## The Company

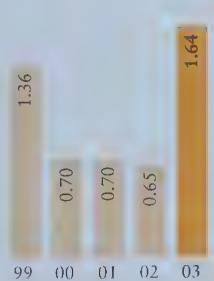
CCL Industries Inc. is a leading provider of innovative packaging solutions and value-added outsourcing services to national and international consumer product marketers of personal care, cosmetic, pharmaceutical, household and specialty food products. The corporate office of CCL, located in Toronto, Canada, provides centralized services such as finance, accounting, internal audit, treasury, risk management, legal, tax, human resources, information technology and environmental, health and safety, and oversees the activities of CCL's three stand-alone divisions: **CCL Custom Manufacturing**, **CCL Container** and **CCL Label**. The Company employs approximately 6,100 people and operates 37 production facilities in North America, Mexico, Europe and Asia.

The Company's customer base is characterized by a significant number of consumer non-durable product companies, which have global market positions. In recent years, the trend in this customer base has been towards consolidation amongst the larger players and the formation of an increasing number of smaller niche players. The current strategy of many of the major consumer products companies is to promote fewer global brands and to discontinue or sell off many of their non-core brands to these smaller marketers. The risks and opportunities of this industry trend, particularly for CCL Custom Manufacturing, are more fully discussed within the Divisions section below. Total demand for non-durable personal care and household products is fairly stable as consumers use them on a regular, often daily, basis; this tends to minimize volatility in demand for CCL's products and services. The state of the economy, world events and competitive activity do, however, affect demand and,

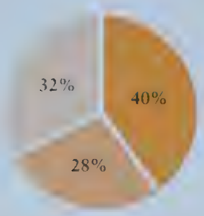
**Sales**
*Millions of dollars*




**Net Earnings per Class B Share**
*Dollars*

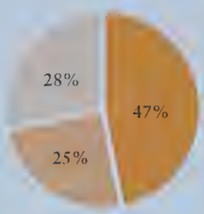


**2003**
**Operating Income**
*By Division*



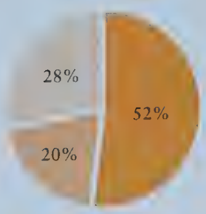

Custom Manufacturing
Container
Label

**2002**
**Operating Income**
*By Division*




Custom Manufacturing
Container
Label

**2001**
**Operating Income**
*By Division*




Custom Manufacturing
Container
Label

in particular, marketers' plans for introducing new products and promoting existing products. These factors directly influence the demand for CCL's products and services, and in the absence of gains or losses in market share, the Company's growth expectations should closely mirror industry trends.

CCL's vision is to increase shareholder value by providing the best total value to its customers as a successful, growing market leader in the production of quality consumer products and specialty packaging, and by building on the strengths of its people, manufacturing skills and strong international customer relationships.

A key driver in CCL's strategy is "focus." CCL aspires to be the market leader and the low-cost producer for each product line, service and geography it chooses to cover.

The Company's overall strategic focus for a number of years has been to maximize earnings and cash flow from its current manufacturing base while looking for opportunities through investment in equipment and innovation in new types of containers, labelling solutions and value-added outsourcing services in order to increase market share and to grow internationally with its customers. The strategy also includes seeking attractively priced acquisitions, which bring technologies and synergies that expand and complement existing manufacturing capabilities and new products. However, the Company also has a strategic focus on improving its return on assets. Action plans to divest major under-performing and non-core business units were completed in 2003. In addition, CCL has a continuous focus on maximizing cash flow by minimizing working capital investment and rigorously monitoring capital spending. Each division is responsible for developing an action plan, tailored to its specific opportunities, within this strategic framework. Commentary regarding the activities and specific plans of each division is found in the Divisions section below.

The key financial target is to increase CCL's return on average equity to 15% by 2005. Return on average equity, before unusual items, as at December 31, 2003 and 2002 was 13.5% and 11.5%, respectively. Management believes that this target level of return on equity is reasonable for the packaging industry and the Company. Management also believes that taking into account both reasonably stable demand for non-durable consumer products and the continuing benefits from its continuous improvement programs, a targeted annual growth rate in earnings per share in the range of 10% is realistic. The Company will continue to focus on generating cash and will utilize the cash flow for acquisitions and capital additions. If the cash flow exceeds attractive acquisition opportunities, the Company will also repurchase its shares provided the repurchase is accretive to earnings per share and improves return on equity.

CCL's strategy and its ability to grow and achieve attractive returns for its shareholders are shaped by key internal and external drivers, which are common to all three divisions. The key performance driver is customer satisfaction founded on a reputation for quality manufacturing, competitive cost, innovation, dependability and financial stability. All three divisions carry out regular formal customer satisfaction meetings with their key customers in order to obtain feedback on ways to improve these relationships. CCL believes that it is the low cost producer in most of its businesses and that it has fostered new product innovations in each product line to support customer expectations.

As the major consumer product companies have consolidated and rationalized manufacturing facilities over recent years, there has also been a trend throughout the supply chain to align with fewer suppliers, including CCL, in an effort to reduce purchasing and transaction costs. Greater economies can generally be achieved by committing higher volumes with suppliers.

All divisions invest significant capital and management effort in their manufacturing facilities in order to reduce costs, develop innovative products, maintain and expand existing capacity, and continuously improve health and safety in the workplace, including environmental activities. In 2003, CCL's capital spending was significantly higher than its depreciation expense in order to take advantage of new market opportunities and to improve infrastructure and operating performance. This capital spending is more fully discussed in the Divisions section below.

Although each division is a leader in market share for the markets they serve, they also operate in a mature and competitive environment. In recent years, the consumer products companies have experienced steady pressure to maintain and, in most cases, to reduce their prices to their major retail customers who are also consolidating. This has, in turn, resulted in a discipline to reduce costs in order to maintain reasonable profit margins at each level throughout the supply chain. This dynamic has created an ongoing challenge for CCL and its competitors to reduce and control their cost structures. Fortunately, unlike some of its competitors, CCL has the financial strength to invest in the equipment, innovation and information technology necessary to continuously strive to be the low-cost producer in the industry.

The cost of many of the key raw material inputs for CCL, such as chemicals, propellants, resins, aluminum, film, paper and inks, is dependent on the economics within the petro-chemical and energy industries, and significant fluctuations in the cost of these inputs may affect the Company's profitability. CCL generally has the ability, due to its size and the use of long-term contracts with both suppliers and customers, to moderate fluctuations in prices from its suppliers and to pass on increases to its customers.

Most of CCL's facilities are located in centres with adequate skilled labour, resulting in moderate pressure on wage rates and employee benefits. CCL's labour costs are competitive in each of the geographies in which it does business. The Company uses both annual and long-term incentive plans specifically designed for the corporate office and each division, to focus key employees on the objectives of achieving annual business plans and growing shareholder value through growth, innovation, cost reductions and cash flow generation.

Drivers common to all divisions for maximizing operating profitability are pricing orders based on size, including consideration for fluctuations in raw materials and packaging costs, and manufacturing efficiency. Efficiency is generally benchmarked per production line against a target such as "throughput of quality product" and per order against a standard such as "return on sales." Total utilization versus capacity available per production line or facility is also used to manage the business. Performance measures used by the divisions that are critical to meeting their strategic objectives and financial targets are return on sales, cash flow, days working capital employed and return on investment. Measures used at the consolidated level include operating income, return on sales, net debt to total capitalization, return on equity and primarily earnings per share.

Management believes it has both the financial and non-financial resources, and the internal control and reporting systems and processes in place to execute its strategy, manage key performance drivers and deliver targeted financial results. In addition, it is in the process of strengthening its internal audit function in order to ensure that its disclosure controls and procedures, and internal controls will be assessed on a regular basis against current standards of effectiveness.

The Company's financial position is strong. As at December 31, 2003, cash and cash equivalents amounted to $81.8 million, compared to $156.1 million as at December 31, 2002. Net debt as at December 31, 2003 amounted to $345.0 million compared to $366.3 million as at December 31, 2002. The reported amounts outstanding for debt and cash have been significantly reduced since the prior year as the majority of debt and cash are denominated in U.S. dollars, which currency depreciated against the Canadian dollar by 18% over the year. Cash flow generated from operations and dispositions during the year and expended on major outlays included $112.2 million for capital expenditures, $104.4 million on business acquisitions, $15.5 million on net debt repayment, $18.0 million, net of issuance, on repurchasing its shares and $11.5 million on dividends to shareholders. Additional detail is set out in the Liquidity and Capital Structure section below.

CCL is not heavily dependent upon specialized manufacturing equipment. Most of the manufacturing equipment employed by the divisions is relatively easy to source. The Company's competitive advantage centres on its process technology, the know-how of its people, its ability to develop proprietary tooling and its strong emphasis on customer service. However, some new manufacturing lines, particularly for the Container Division, take many months for the suppliers to construct, and such delays in delivery and/or commissioning can put a strain on customer expectations and plant profitability. The Company also uses strategic partnerships as a method of obtaining proprietary technology in order to support growth plans and expand its product offerings.

The expertise of its employees is a key element to achieving CCL's business plans. This know-how is broadly distributed throughout the business and many facilities; therefore, the Company is generally not at risk of losing its competency through the loss of any particular employee or group of employees. Skills are constantly being developed within the employee base through on-the-job training and exploring alternative applications and processes for its manufacturing base.

The nature of the research carried out by the divisions is best characterized as application or process development. As a leader in packaging solutions, the Company spends meaningful resources assisting customers with improved product formulations and developing innovative specialty closures, containers and labels. While customers regularly come to CCL with concepts and request assistance in developing a commercial packaging solution, the Company also takes innovative packaging concepts to its customers. Company information and that of its customers is protected through the use of confidentiality agreements and by limiting access to the manufacturing facilities.

The Company has invested significant time and capital to modernize and expand its business systems. This investment was critical to keep pace with customer requirements and to gain or maintain a competitive edge. The Custom Manufacturing Division produces "shelf ready" products for its customers. In many ways, it is an extension of some of its customers' manufacturing plants and all of its customers' distribution channels. Therefore, it is essential to have the capability to seamlessly communicate with various sophisticated computer-based systems. Both the Custom Manufacturing and the Container Divisions require and have the capability for supply chain web-based integration with their customers and suppliers.

## Divisions

### Custom Manufacturing

The Custom Manufacturing Division is a leading provider of manufacturing and other value-added outsourcing services to international and national consumer product companies. It produces a wide range of personal care, over-the-counter medicated, household care and specialty food products in aerosol, liquid, cream, lotion, paste and solid stick formats. It has operated for over fifty years and currently has six manufacturing facilities located in the United States, Canada, the United Kingdom and Germany. In 2003, the Division transferred certain products from its Grimsby U.K. facility to its Scunthorpe U.K. plant and sold the residual Grimsby business and plant.

The Division derives its revenues from the formulation and filling of consumer products based on customer specifications and from the provision of additional services as part of its full-service manufacturing capabilities. A filling fee is received for each unit formulated and filled. The filling fee plus the charges for additional services, if applicable, are reported as revenue at the time the goods are shipped and ownership transfers to the customer. The Division produces to specific orders from its customers, which are shipped from the facility following manufacture and generally not inventoried as finished product. Value-added services may include overall project management, process development, and supply chain management and reporting. In addition, full-service manufacturing often includes the procurement of chemicals and packaging materials. The Division procures approximately 70% of all raw materials and packaging used, with the remainder being supplied by the customer. Under the procurement arrangements, the price of the materials plus a procurement and administration fee are invoiced to the customer. The procurement activity, although profitable, does not provide the same income per additional sales dollar as the formulation, filling and other outsourced services.

The Custom Manufacturing Division aspires to grow with the customer and be its first choice for contract manufacturing and other value-added outsourcing services. The Division's strategy is to: (a) leverage its purchasing and manufacturing economies of scale, modern information systems and depth of experience to continuously expand its full-service and supply chain capabilities; (b) build on its manufacturing and technical expertise and its competence in environmental, health and safety compliance to diversify and focus on the more complex, higher value-added product categories; (c) continue to leverage its geographic base into additional business with global customers; and (d) pursue acquisition opportunities for technologies or synergies that expand or complement its growth strategy.

Most of the larger consumer product companies perform significant "in-house" manufacturing in addition to marketing their products to the retail sector. They also use CCL Custom Manufacturing or competitors, including offshore companies, to produce selected product lines, new product introductions, smaller run sizes and peak-period requirements. The Division has competitors in each country in which it operates; however, no competitor

matches the size or has the international coverage of CCL Custom Manufacturing. In recent years, there has been a significant number of mergers within the customer and competitor bases. At the same time, some larger customers have been selling their non-core brands to new and smaller marketers in order to concentrate on mass-market brands. Many of these new and smaller marketers do not have in-house manufacturing capabilities; instead, they outsource their requirements. This occurrence has been a growing trend, which creates a new customer base.

This current trend of marketer consolidation and facilities rationalization creates both risks and opportunities for the Division. A customer merger may result in economies of scale for the marketer, justifying the consolidation of manufacturing of products in-house or, alternatively, may necessitate outsourcing with contract manufacturers. In addition, as customers become larger through industry consolidation, they are also able to exert increased margin pressure on contract manufacturers, while striving to reduce their supplier base to obtain purchasing leverage and reduced transaction costs. CCL's Custom Manufacturing Division, with its size and reputation, financial strength, modern information systems and the geographic coverage of its plants, is a logical contender for any new outsourcing opportunities. The output of this Division in 2003 was lower compared to 2002, due to soft demand and business losses based on aggressive competitive pricing.

Management believes that in the near-term, the trend to outsourcing by consumer products companies will continue to grow for the following reasons:

(1) Outsourcing allows them to focus on their core competencies of product development, promotion and sales, and can facilitate the customer allocating capital to development as opposed to investing in manufacturing assets;
(2) It provides access to additional technologies, expertise and capabilities in manufacturing, processing and packaging;
(3) It facilitates new product introductions without undergoing changes to in-house manufacturing lines until market acceptance and sales levels justify doing so. Contract manufacturers generally have more flexibility in their facilities, therefore, outsourcing may accelerate getting new products to market;
(4) Contract manufacturers may also be able to provide lower cost production through economies of scale in procurement of raw materials and in production capabilities; and
(5) The escalating cost of healthcare and insurance encourages customers, with higher costs in these areas, to consider outsourcing.

Revenue is recorded at the time the goods are shipped from each plant and the ownership transfers to the customer. The Division only produces to custom orders and specifications.

### Container

The Container Division is a leading manufacturer of specialty containers for the consumer products industry. The key product lines are specialty containers, which include recyclable aluminum cans and bottles, and plastic tubes and specialty dispensing closures. It operates from six plants located in the United States, Canada and Mexico. The Division functions in a competitive environment, which includes imports and the ability of customers, in some cases, to shift a product to an alternative package or to other manufacturers. There is no other manufacturer in North America that produces all of the Division's product lines. In 2003, the Division sold four non-strategic business units to a private limited partnership for cash, future consideration and an equity position. These business units manufactured principally aluminum and laminate tubes, and plastic jars.

The strategic plan for this Division includes growing market share through manufacturing excellence, exceeding customer expectations and innovation. The Division invests significant resources in the development of innovative containers such as its highly decorated and shaped aluminum cans and bottles, and highly decorated, textured and shaped plastic tubes. As an example, management in the aluminum can and bottle business unit strive to have ten new products under development at all times and measure their success in innovation through the percentage of total sales derived annually from products commercialized during the past three years. The successful commercialization of the beverage can was derived from this effort. As demand for these new higher value products grow, the Division dedicates new lines and/or adapts existing lines to their production and may acquire new lines in order to maximize manufacturing efficiencies.

Revenue is recorded at the time goods are shipped from the manufacturing facility and ownership transfers to the customer. The Division generally produces containers to customer orders and specifications, and, under agreements with select customers, is required to maintain minimum levels of finished goods.

Aluminum, energy, and polyethylene and polypropylene plastic resins represent significant variable costs for this Division. Aluminum is a commodity that trades on the London Metal Exchange and is supplied by a limited number of global producers. Volatility in aluminum prices can significantly impact manufacturing costs and may influence marketers to shift to alternative types of containers. The Division uses a hedging program, in combination with fixed price contracts with a number of its significant customers, to moderate the fluctuations in the cost of this commodity, to stabilize profit margins and to reduce the average cost of aluminum over time. The vast majority of its estimated requirements have been hedged with futures contracts for the years 2004-2007. In addition, options on aluminum have been written with a view to reducing the average cost.

There is no viable hedging mechanism available for plastic resins that is similar to the one used for aluminum. During 2003, prices for resins remained fairly stable due to market requirements being in balance with production. Expectations for 2004 are for modest increases in resin prices. The Division relies on contracts with suppliers to control costs and contracts with customers to control prices and pass on price increases for costs such as resin and energy. The industry traditionally has been able to pass on these cost increases over a period of time.

Management believes the market for shaped aluminum containers, the larger sized plastic tubes and innovative decorating in all of its product categories will continue to grow. The biggest risk for the Division's business base relates to customers importing similar containers or shifting their products into containers of other materials such as steel or glass, leading to a loss in market share. The biggest opportunity is the possibility of acquiring market share from competitors for existing product lines and from the introduction of innovative new products such as the resealable aluminum bottle for the niche high-end beverage market.

### Label

The Label Division is a leading North American and European producer of premium-quality labels and other promotional products for consumer product marketing companies in the personal care, food, beverage, healthcare and chemical segments of the industry. The Division's product lines include pressure-sensitive, in-mold and expanded content labels, in addition to other presentation or promotional products such as packaging inserts, shrink sleeves, and games and other promotional coupons. It currently operates from twenty-five facilities located in the United States, Canada, Mexico, Puerto Rico, the United Kingdom, France, The Netherlands, Denmark, Austria and Thailand.

This Division operates within a sector of the packaging industry made up of a very large number of competitors who manufacture a vast array of product information and identification labels. There are many product categories that do not fall within the Division's target market. CCL Label's mission is to be the global supply chain leader of innovative premium package and promotional label solutions for the world's largest consumer product and healthcare companies. It aspires to do this from regional facilities that focus on specific customer groups, products and manufacturing technologies in order to maximize management's expertise, manufacturing efficiencies and customer satisfaction. The Division will also continue to grow and expand its global reach through acquisitions, joint ventures, start-ups and "cross-sharing" of technologies with packaging partners. It recently purchased equipment to manufacture labels for segments of the food and beverage markets.

During 2003, the Division significantly expanded its European business base. It finalized a previously announced 51% controlled European joint venture with Pachem AG, headquartered in Hohenems, Austria, which expanded its technology and know-how in the decoration of food, beverage and battery containers. In October 2003, it also purchased Avery Dennison's European Label converting business located in Denmark and France. These businesses, along with the 2002 purchase of the Jarvis Porter Label converting business resulted in the formation of one of the largest label manufacturing networks in Europe. By the end of 2003, the Division had completed its start-up operation in Thailand to supply global customers in the Asian personal care and healthcare market. In addition, it purchased Lucas-Insertco, a Baltimore MD-based manufacturer of packaging inserts for the U.S. and Puerto Rican healthcare industry. The Division considers demand for traditional pressure-sensitive labels, particularly in North America, to be mature and, as such, will continue to focus its expansion plans on innovative and higher growth product lines.

Revenue is primarily recorded at the time goods are shipped from each plant and ownership transfers to the customer. The Division only produces labels to customer orders and specifications. Under agreements with select customers, the Division is required to inventory minimum levels of finished goods. In some limited cases, label inventories are held at the customer's manufacturing site and are invoiced and paid electronically, based on daily consumption.

The Division produces labels from paper and plastic film sourced from the paper and petro-chemical industries. CCL Label is generally able to mitigate problems of price volatility due to a combination of purchasing leverage, agreements with suppliers and its ability to pass on these cost increases to customers. There is a close alignment in label demand to changes in the consumer demand for non-durable goods. Management believes that growth in excess of industry demand can be attained over the next few years through its focused strategy. The trend by global customers to higher end premium packaging requires significant investment in innovation, printing equipment and technology. Customers are also limiting the number of suppliers and are expecting a full range of product offerings. In addition, as customers require label suppliers to become more integrated into their supply chain at a global level, it will become increasingly difficult for many smaller and financially weaker competitors to compete in this sector. CCL Label is well positioned to meet this need with its twenty-five plants in North America, Mexico, Europe and Thailand.

## Results of Consolidated Operations

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| Sales | $ 1,518.4 | $ 1,684.9 | $ 1,600.5 |
| Income from operations before undernoted items | $ 168.8 | $ 184.1 | $ 159.9 |
| Depreciation, and amortization of other assets | 67.4 | 75.8 | 73.4 |
| Interest expense (net) | 23.0 | 30.9 | 32.4 |
| | 78.4 | 77.4 | 54.1 |
| Unusual items – net loss | 6.6 | 39.1 | 7.7 |
| Earnings before income taxes and goodwill amortization | 71.8 | 38.3 | 46.4 |
| Income taxes | 18.8 | 16.5 | 8.0 |
| Earnings before goodwill amortization | 53.0 | 21.8 | 38.4 |
| Goodwill amortization (net of tax) | – | – | 13.5 |
| Net earnings | $ 53.0 | $ 21.8 | $ 24.9 |
| Per Class B share | | | |
| Earnings before goodwill amortization | $ 1.64 | $ 0.65 | $ 1.08 |
| Net earnings | $ 1.64 | $ 0.65 | $ 0.70 |
| Unusual items included in net earnings – loss | $ 0.16 | $ 1.05 | $ 0.13 |
| Diluted earnings | $ 1.61 | $ 0.64 | $ 0.70 |

All "per Class B share" amounts in this document are expressed on an undiluted basis, unless otherwise indicated, and the amounts would not be materially different on a diluted basis.

## Balance Sheet Data

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| Total assets | $ 1,191.9 | $ 1,342.7 | $ 1,455.0 |
| Shareholders' equity | $ 418.9 | $ 437.0 | $ 563.7 |
| Number of shares outstanding *(million)* | 32.3 | 33.4 | 34.1 |
| Book value per share *(dollars)* | $ 13.00 | $ 13.10 | $ 16.52 |
| Total debt | $ 426.8 | $ 522.4 | $ 548.6 |
| Total debt to capitalization | 55.9% | 65.0% | 54.8% |
| Net debt | $ 345.0 | $ 366.3 | $ 435.7 |
| Net debt to capitalization | 45.2% | 45.6% | 43.6% |

## Comments on Consolidated Results

Reported sales decreased 10% to $1,518.4 million in 2003, compared to $1,684.9 million in 2002. Sales in 2002 increased 5% compared to 2001. Approximately 80% of CCL's sales are derived outside Canada and then translated into Canadian dollars for reporting purposes at prevailing exchange rates. During 2003, a number of currencies depreciated against the Canadian dollar. The United States dollar, the base currency of approximately 60% of CCL's total sales, has on average depreciated by 11% for the year compared to last year. In 2002, the United States dollar appreciated, on average, by 1% compared to 2001. The depreciation of this currency in 2003 has had a negative effect on reported sales and net earnings. If the effect of all foreign currency translation and the sales from divestitures were excluded, total sales were flat in 2003 compared to 2002 and increased approximately 4.5% in 2002 compared to 2001. The effect of all CCL's foreign currency translation has reduced earnings per share, compared to 2002, by $0.12 for the 2003 year and was not material in 2002 compared to 2001.

CCL has traditionally hedged some of its expected U.S. dollar cash inflows derived by sales into the U.S. from the Canadian plants. For the year 2003, these hedge transactions were at an average rate of $1.59 compared to the actual average rate for the year of $1.40 and positively affected earnings before tax by $4.5 million. In 2002, similar hedges decreased income by $0.2 million and in 2001 decreased income by $0.8 million. Hedges have been put in place for the first quarter of 2004 but at lower rates.

Insurance and energy costs increased significantly in 2003 compared to 2002, but because of the continued pressure on margins, only a portion of these increased costs was recovered from customers.

Net interest expense has declined annually over the past three years. The depreciation of the United States dollar, particularly in 2003, has had the effect of reducing reported interest expense since CCL's borrowings are primarily denominated in U.S. dollars. Interest expense is net of interest earned on both short-term investments and Interest Rate Swap Agreements ("IRSA"). The Company is amortizing a gain realized on the sale of an IRSA in 2001. In June and December 2002, the Company entered into two additional IRSAs with a Canadian financial institution, the effect of which was to convert US$120 million of notional fixed rate debt (hedging the 1996 private placement notes) into floating rate debt, based on three-month LIBOR rates. Additionally, in December 2003, the Company entered into a new IRSA to convert an additional tranche of fixed rate debt to a floating rate. This new IRSA converts US$42.1 million of notional fixed rate debt (hedging 50% of the 1997 private placement notes) into floating rate debt, based on three-month LIBOR rates. The notional amount of this swap will decrease by US$4.7 million annually to match the decrease in the principal of the underlying notes. The unrealized gain on these agreements, as at December 31, 2003, amounted to $5.5 million. The effect of interest earned on these four Swaps has reduced interest expense by $5.9 million in 2003 compared to $3.2 million and $1.3 million in 2002 and 2001, respectively. Interest coverage (defined as operating income before unusual items and interest expense divided by interest expense calculated on a rolling 12-month basis) was 4.4, 3.5 and 2.7 times in 2003, 2002 and 2001, respectively.

Earnings and earnings per share over the three-year period have benefited from the lower interest expense and from the reduced number of shares outstanding due to the Company's share repurchase program under Normal Course Issuer Bids in place over this timeframe. In 2003, the Company repurchased 1,192,300 Class B shares at an average price of $17.39 per share. The weighted average number of shares outstanding were 32.3 million, 33.9 million and 36.0 million for 2003, 2002 and 2001, respectively.

Unusual items amounted to net losses of $6.6 million, $39.1 million and $7.7 million before tax or $0.16, $1.05 and $0.13 per Class B share in 2003, 2002 and 2001, respectively. The unusual items in 2003 were the net loss of $3.1 million on the disposition of four non-core business units in the Container Division, restructuring costs of $2.4 million related to the sale of a non-core plastic closures product line, restructuring costs of $1.7 million related to the disposal of a non-core Custom Manufacturing plant in the U.K., net of a $0.6 million gain on the repatriation of capital from a foreign subsidiary. In 2002, the unusual items relate mainly to an impairment provision of $37.3 million taken on CCL's investment in Miza Pharmaceuticals, Inc. In 2001, the unusual item relates primarily to a plan of restructuring in the Container and Label Divisions.

In 2003, the tax rate was 26.1% compared to 43.1% and 17.2%, respectively in 2002 and 2001. These effective rates are different than the combined Canadian federal and provincial tax rate of 33.3% in 2003 and 2002, and 34.0% in 2001 due to the benefit of lower tax rates in foreign subsidiaries net of income and expense items not subject to tax. Approximately 80% of CCL's sales are derived outside of Canada, and the income from these foreign operations is subject to varying rates of taxation. The Company has benefited from lower tax

rates in these jurisdictions compared to the combined Canadian federal and provincial rates. The Company's effective tax rate varies from year to year as a result of the level of income in the various countries, the impact of tax losses not previously recognized, and the impact of income and expense items not subject to tax.

Net earnings for 2003 of $53.0 million compares to $21.8 million in 2002 and $24.9 million in 2001. Net earnings per Class B share increased to $1.64 in 2003 versus the $0.65 recorded in 2002 and the $0.70 of 2001. The increase in earnings and earnings per Class B share over the three years was due to improved operational performance and the non-recurring nature of the one-time items in 2002 and 2001 and elimination of goodwill amortization after 2001.

## Quarterly Sales and Earnings by Division

| 2003 | Qtr 1 | Qtr 2 | Qtr 3 | Qtr 4 | Year |
|---|---|---|---|---|---|
| Sales | | | | | |
| Custom Manufacturing | $ 229.3 | $ 202.8 | $ 183.6 | $ 185.3 | $ 801.0 |
| Container | 88.7 | 88.1 | 70.1 | 47.9 | 294.8 |
| Label | 108.8 | 99.5 | 100.8 | 113.5 | 422.6 |
| Total sales | $ 426.8 | $ 390.4 | $ 354.5 | $ 346.7 | $ 1,518.4 |
| Divisional operating income | | | | | |
| Custom Manufacturing | $ 11.5 | $ 11.3 | $ 10.0 | $ 11.3 | $ 44.1 |
| Container | 9.4 | 10.4 | 7.5 | 4.0 | 31.3 |
| Label | 9.2 | 8.2 | 8.5 | 9.2 | 35.1 |
| Contribution from operations | $ 30.1 | $ 29.9 | $ 26.0 | $ 24.5 | $ 110.5 |
| Unusual items – net gain (loss) | $ (2.4) | $ (1.3) | $ (7.2) | $ 4.3 | $ (6.6) |
| Net earnings | $ 14.1 | $ 14.7 | $ 6.8 | $ 17.4 | $ 53.0 |
| Per Class B share | | | | | |
| Net earnings | $ 0.43 | $ 0.46 | $ 0.21 | $ 0.54 | $ 1.64 |
| Unusual items included in net earnings – net gain (loss) | $ (0.04) | $ (0.03) | $ (0.22) | $ 0.13 | $ (0.16) |

| 2002 | Qtr 1 | Qtr 2 | Qtr 3 | Qtr 4 | Year |
|---|---|---|---|---|---|
| Sales | | | | | |
| Custom Manufacturing | $ 235.2 | $ 234.8 | $ 229.2 | $ 220.2 | $ 919.4 |
| Container | 84.2 | 88.9 | 91.8 | 86.3 | 351.2 |
| Label | 108.4 | 102.9 | 103.4 | 99.6 | 414.3 |
| Total sales | $ 427.8 | $ 426.6 | $ 424.4 | $ 406.1 | $ 1,684.9 |
| Divisional operating income | | | | | |
| Custom Manufacturing | $ 13.6 | $ 15.7 | $ 13.2 | $ 12.0 | $ 54.5 |
| Container | 7.8 | 6.8 | 7.9 | 7.2 | 29.7 |
| Label | 8.8 | 7.6 | 7.9 | 8.3 | 32.6 |
| Contribution from operations | $ 30.2 | $ 30.1 | $ 29.0 | $ 27.5 | $ 116.8 |
| Unusual items – net gain (loss) | $ 1.6 | $ (2.0) | $ (30.4) | $ (8.3) | $ (39.1) |
| Net earnings/(loss) | $ 14.8 | $ 13.3 | $ (15.7) | $ 9.4 | $ 21.8 |
| Per Class B share | | | | | |
| Net earnings/(loss) | $ 0.43 | $ 0.39 | $ (0.45) | $ 0.28 | $ 0.65 |
| Unusual items included in net earnings – net gain (loss) | $ 0.01 | $ (0.06) | $ (0.89) | $ (0.11) | $ (1.05) |

## Results of Operations

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| **Divisional sales** | | | |
| Custom Manufacturing | $ 801.0 | $ 908.9 | $ 819.0 |
| Container | 217.0 | 231.8 | 208.8 |
| Label | 422.6 | 414.3 | 386.0 |
| Sales of continuing operations | 1,440.6 | 1,555.0 | 1,413.8 |
| Sales of disposed operations | 77.8 | 129.9 | 186.7 |
| Sales as reported by the Company | $ 1,518.4 | $ 1,684.9 | $ 1,600.5 |
| **Income from operations** | | | |
| Custom Manufacturing | $ 44.1 | $ 54.8 | $ 50.2 |
| Container | 21.7 | 18.4 | 10.7 |
| Label | 35.1 | 32.6 | 26.3 |
| Contribution from continuing operations | 100.9 | 105.8 | 87.2 |
| Income from disposed operations | 9.6 | 11.0 | 4.7 |
| Divisional operating income | $ 110.5 | $ 116.8 | $ 91.9 |

## Comments on Income from Operations

The above summary includes the results of acquisitions and segregates the effect of divestitures on reported sales and operating income. The 2001 income numbers have been restated to exclude goodwill amortization on the same basis of reporting as for 2003 and 2002.

Divisional operating income in 2003 from continuing operations declined to $100.9 million from $105.8 million in 2002 due to generally weaker demand and margin pressure in the Custom Manufacturing Division and Plastic Packaging business unit of the Container Division. This impact is discussed in more detail below. In addition, the negative translation effect of the stronger Canadian dollar relative to, in particular, the United States dollar, discussed under consolidated results above, reduced reported income before interest expense in 2003 by approximately $7.6 million compared to 2002. In 2002, divisional operating income from continuing operations increased by $18.7 million compared to 2001. All three divisions benefited from a generally strong economy in 2002 and contributed to the increase. In 2002, the combined improvement in the continuing operations of the Container and Label Divisions amounted to $14.1 million and was in large part due to the results of restructuring plans implemented in 2001 to address operational issues.

## Report on Divisional Results of Operations

### Custom Manufacturing

Sales from continuing operations, excluding divestitures, decreased 12% in 2003 and increased 11% in 2002. Sales and income contribution from this Division were negatively affected in 2003 by softness in demand, margin pressure and business lost due to competitive pricing. Unit volume in 2003 was down 9% compared to the record year in 2002, in part, due to the sale of a number of the Grimsby U.K. product lines. A sales mix of lower margin products and the decline in the value of the United States dollar have also negatively affected the divisional income. If the effect of foreign currency translation were excluded, sales and operating income decreased 7% and 16%, respectively in 2003 compared to 2002.

The Division has been aggressively working on a number of new customer and higher margin product opportunities in order to replace lost volume. A number of these new contracts along with recent cost reduction projects are expected to positively affect operating income in 2004. However, the hedging of U.S. dollars at much lower exchange rates will have a negative effect on operating income in 2004. In 2002, this Division secured significant new business and this improved demand, together with the increase in full-service contracts, accounted for the record sales and operating income, particularly in the first half of 2002. The economic slowdown, which affected all geographies in 2003, had become noticeable in mid 2002 particularly in the U.K. and Germany. Volumes in 2002 were 4% higher than 2001. Early indications are for improving demand in 2004.

The contribution from continuing operations decreased $10.7 million in 2003 and increased $4.6 million in 2002 as a result of the factors set out above. Return on sales has fluctuated over the three-year period from

5.4% in 2001 to 5.9% in 2002 and 5.5% in 2003. The decline in 2003 is due to the increased procurement of materials as part of full-service manufacturing contracts in addition to continual margin pressure. Under the procurement activity, the Division invoices the price of materials purchased plus a fee, but this revenue does not yield the same return per sales dollar as the regular services provided by the Division, because of lower margins in the purchasing of materials.

The Division invested $29.1 million in capital in 2003 and $22.3 million in 2002 compared to $16.8 million in 2001, to reduce costs while maintaining and expanding its manufacturing base. Depreciation and amortization of other assets amounted to $19.2 million in 2003 compared to $20.2 million in 2002 and $21.6 million in 2001, respectively. In line with the Division's strategy, investment in new equipment is being directed to growing product lines such as barrier filling for gel aerosol products and the more complex personal care creams and lotions.

### Container

Sales from continuing operations, which has been adjusted for the four non-strategic business units sold during 2003, decreased 6% in 2003 compared to 2002 and increased 11% in 2002 compared to 2001. During 2003, this Division continued to benefit from a growing demand for aluminum bottles and aerosol containers. However, a noticeable drop in industry demand for plastic closures and tubes during the last half of the year more than offset the growth in aluminum containers.

Despite the drop in plastic sales, income from continuing operations improved in 2003 to $21.7 million compared to $18.4 million in 2002 and $10.7 million in 2001. In 2001 and early 2002, the Plastic Packaging unit underwent a major restructuring in order to address operational issues and to focus its product lines. This business unit contributed to the profit improvement in 2003 and in 2002 compared to 2001, in which a significant loss was incurred. Plastic Packaging, in spite of improved profitability in 2003 compared to 2002 and 2001 continues to experience operational issues including higher than normal labour, workers' compensation and scrap costs. These were particularly evident in the last quarter of 2003. If the effect of foreign currency translation were excluded, sales and operating income from continuing operations in the Container Division increased 4% and 26%, respectively in 2003 compared to 2002.

The backlog for aluminum containers, driven by demand for niche beverage and specialty shaped containers, was at record levels during the year, requiring the Division to outsource significant production resulting in lower margins, in order to meet customers' requirements while it awaited the commercialization of new manufacturing capacity. The first of two new manufacturing lines became commercial in the fourth quarter of 2003 and the second line is due to become commercial by the end of the second quarter of 2004. The total outlay on these two lines during 2003 and 2004 is estimated to be $27.0 million of which $15.5 million was spent in 2003.

In 2003, the Division spent $34.2 million to maintain and expand its manufacturing base. This expenditure compares to $14.8 million and $21.0 million in 2002 and 2001, respectively. Depreciation and amortization of other assets in 2003 amounted to $22.2 million compared to $30.2 million in 2002 and $28.6 million in 2001.

### Label

2003 results included Lucas-Insertco, the CCL-Pachem joint venture and Avery Dennison's European Label converting business from dates of acquisition. These acquisitions are discussed in more detail below. As well, 2003 included full year's results from the five European label plants acquired in early 2002 from Jarvis Porter. Sales from continuing operations in 2003 increased 2% compared to an increase of 7% in 2002. The acquisitions in 2003 accounted for $95 million in sales and a contribution to operating profit. If these acquisitions were excluded, sales and operating income from the former business base decreased 11% and 15%, respectively in 2003 compared to 2002. As noted earlier, the significant strengthening of the Canadian dollar in 2003 has had a negative effect on reported sales and operating income. If the effect of foreign currency translation were excluded, sales and operating income from continuing operations increased 11% and 17% respectively in 2003 compared to 2002.

In 2002, the Jarvis Porter acquisition, completed early in that year, amounted to $45.9 million in sales and a break-even operating profit. If these sales were excluded, sales in 2002 deceased 5%, however, operating income improved 24% compared to 2001. This decline was attributed to a combination of a significant drop in consumer demand for personal care products and management's efforts to focus on higher margin products.

Return on sales was 8% in 2003 and in 2002 compared to 7% in 2001. Management believes that return per sales dollar will continue to improve and exceed these levels due to improvements in contributions from the European operations, the shift in focus to higher margin products, and its continuing strategy to replace and/or upgrade its printing and associated manufacturing base in order to broaden its capability and improve operating efficiencies.

In 2003, the Division continued its expansion strategy with emphasis on higher margin product lines and high growth geographies. On June 9, 2003, the Division announced the purchase of Lucas-Insertco; on July 3, 2003, the formation of CCL-Pachem, a 51% controlled joint venture; and on October 2, 2003, the purchase of Avery Dennison's European Label converting business. In 2003, the Division also completed the construction of a new plant in Thailand to service global customers in the personal care and healthcare markets. The first of two high-speed printing presses planned for this location was commissioned during the fourth quarter. Also, this Division completed the relocation of its Monrovia, CA facility to Upland, CA and the commissioning of a major new gravure printing press in Sioux Falls, SD. Amounts expensed in the year on these latter two initiatives was $6.8 million. The Division is also in the process of selling its existing facility in Leeds, U.K. to a property developer at a significant gain, and relocating its operations to a new facility in the area in late 2004. Management estimates that this relocation will cost significantly less than the proceeds from the property sale.

The Label Division invested $48.8 million in capital in 2003 compared to $33.7 million in 2002 and $16.8 million in 2001 to expand its manufacturing base, including the Thailand project. Depreciation and amortization of other assets amounted to $24.9 million in 2003 compared to $24.4 million in 2002 and $22.5 million in 2001. Over the next few years, the Division plans to replace and/or upgrade its printing and associated manufacturing base as part of a strategy to broaden the Division's capability and, at the same time, improve operating efficiencies.

## Outlook

The economies of North America and Western Europe in 2003 were generally weak, particularly as they related to demand for consumer non-durable products. At the same time, demand for certain CCL product lines in the Container and Label Divisions was very strong. The Company's outlook for 2004 is mildly positive with modest growth in both North America and Europe. The Company's order bank is at normal levels for most sectors of the business for the first quarter of 2004. During 2002 and 2003, the Company completed its strategy of divesting under-performing businesses and investing in higher growth businesses. At the same time, CCL invested heavily in new equipment, particularly in the Container and Label Divisions. Management expects these investments will provide both organic growth and margin stability due to anticipated improvements in manufacturing effectiveness. At the same time, these anticipated improvements in the continuing businesses will be clouded by the translation effect of the strong Canadian dollar based on management's assumption that the Canadian dollar exchange rate compared to the United States dollar, will remain in the $0.75 range during 2004. If the Canadian dollar stays at an average of $0.75 compared to the United States dollar during 2004, management estimates the negative translation effect on earnings per share will be approximately $0.05. Since exchange rates have been reducing throughout 2003, much of this translation effect has already been felt.

The favourable U.S. forward contracts averaging $1.59 exchange rate in 2003 will not be repeated in 2004. The lower rates of these contracts in 2004 (assume $1.33 exchange rate) will reduce earnings per share by approximately $0.14.

## Liquidity and Capital Structure

The Company's financial position remains strong. As at December 31, 2003, cash and cash equivalents amounted to $81.8 million. This compares to $156.1 million as at December 31, 2002 and $112.9 million as at December 31, 2001.

### Summary of Net Debt

| | December 31, 2003 | December 31, 2002 | December 31, 2001 |
|---|---|---|---|
| Current debt | $ 22.3 | $ 16.7 | $ 29.7 |
| Long-term debt | 404.5 | 505.7 | 518.9 |
| Total debt | 426.8 | 522.4 | 548.6 |
| Cash on hand | (81.8) | (156.1) | (112.9) |
| Net debt | $ 345.0 | $ 366.3 | $ 435.7 |

The foundation of the Company's long-term debt are notes held by private U.S. institutions that total US$314.3 million (Cdn$407.5 million) at December 31, 2003, with an average interest rate of 5.1%, factoring in the related Interest Rate Swap Agreements. The notes have a six-year average term to maturity. This compares with US$323.6 million (Cdn$510.5 million) as at December 31, 2002. Scheduled annual repayments of US$9.4 million were made in September 2003 and 2002. The reported amounts outstanding for debt and cash have been significantly reduced since the majority of debt and cash are denominated in U.S. dollars.

As discussed earlier, the Company currently has three Interest Rate Swap Agreements from a Canadian financial institution, the effect of which is to convert US$162.1 million of notional fixed rate debt into floating rate debt. The unrealized gain on these agreements, as at December 31, 2003, amounted to $5.5 million.

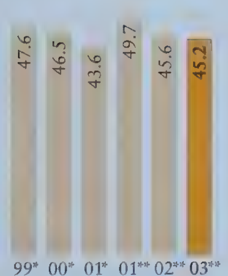
The Company's liquidity is expected to be satisfactory for the foreseeable future due to its significant cash balances combined with the expected continuation of its strong level of cash flow and low level of debt repayment obligations.

The Company's obligations relating to debt and leases at year-end 2003 were as follows:

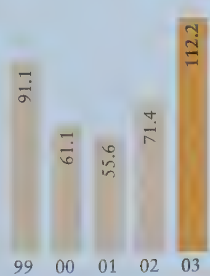
## Contractual Obligations

| | | Payments Due by Period | | | | | |
|---|---|---|---|---|---|---|---|
| | Total | 2004 | 2005 | 2006 | 2007 | 2008 | Thereafter |
| Short-term lines of credit | $ 7.6 | $ 7.6 | $ – | $ – | $ – | $ – | $ – |
| Unsecured senior notes issued March 1996, 6.66% repayable March 2006 (US$120.0MM) | 155.6 | – | – | 155.6 | – | – | – |
| Unsecured senior notes issued September 1997, 6.97% repayable in equal installments starting September 2002 and finishing September 2012 (2003 – US$84.3MM; 2002 – US$93.6MM) | 109.3 | 12.1 | 12.1 | 12.1 | 12.1 | 12.1 | 48.8 |
| Unsecured senior notes issued July 1998, 6.9% weighted average, repayable in three tranches with repayments after 12, 15 and 20 years (US$110.0MM) | 142.6 | – | – | – | – | – | 142.6 |
| Mortgage | 3.4 | 0.2 | 3.2 | – | – | – | – |
| Capital leases | 3.3 | 0.9 | 0.7 | 0.5 | 0.3 | 0.2 | 0.7 |
| Other long-term obligations | 5.0 | 1.6 | 1.6 | 0.6 | 0.4 | 0.2 | 0.6 |
| Operating leases | 45.8 | 10.5 | 8.6 | 7.0 | 5.1 | 4.5 | 10.1 |
| Total contractual cash obligations | $ 472.6 | $ 32.9 | $ 26.2 | $ 175.8 | $ 17.9 | $ 17.0 | $ 202.8 |

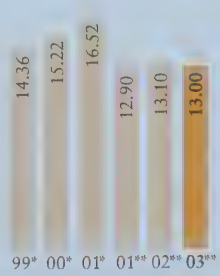
**Net Debt to Total Capitalization**
%




**Capital Spending**
*Millions of dollars*




**Book Value per Share**
*Dollars*




**Old accounting rules for goodwill impairment*
***New accounting rules for goodwill impairment*

The Company's committed credit availability at year-end 2003 was as follows:

| | Total Amounts Committed |
|---|---|
| Lines of credit – committed, unused | $ 20.9 |
| Standby letters of credit outstanding | 4.8 |
| Total | $ 25.7 |

All of the above commitments expire in 2004.

In addition, the Company had uncommitted lines of credit of approximately $9.6 million at December 31, 2003. The Company's uncommitted lines of credit do not have a commitment expiration date, and may be cancelled at any time by the Company or the banks.

The Company has no material "off balance sheet" financing obligations except for typical long-term operating lease agreements. The nature of these commitments is described in note 13 of the Consolidated Financial Statements. Additionally, the vast majority of the Company's post-employment obligations are defined contribution pension plans. There are no defined benefit plans funded with CCL stock.

As at December 31, 2003, shareholders' equity stood at $418.9 million compared to $437.0 million reported a year earlier. There were 32.3 million Class A voting and Class B non-voting shares outstanding as at December 31, 2003 compared with 33.4 million a year earlier. Book value per share as at December 31, 2003 was $13.00 compared to the $13.10 reported as at December 31, 2002. Net debt to total capitalization was 45.2% as at year-end compared to the 45.6% reported for December 31, 2002.

## Summary of Changes in Shareholders' Equity

| *For the year ended December 31* | 2003 | 2002 | 2001 |
|---|---|---|---|
| Net earnings | $ 53.0 | $ 21.8 | $ 24.9 |
| Dividends | (11.5) | (11.4) | (11.4) |
| Repurchase of shares, net of issuance and settlement of exercised stock options and executive share loans | (19.8) | (18.1) | (29.3) |
| Goodwill impairment charge | – | (123.4) | – |
| Increase (decrease) in unrealized foreign exchange gain on translation of net foreign assets | (39.8) | 4.4 | 21.3 |
| Increase (decrease) in shareholders' equity | $ (18.1) | $ (126.7) | $ 5.5 |

## Summary of Cash Flows

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| Cash inflows | | | |
| Cash provided by operating activities (before change in non-cash working capital) | $ 132.7 | $ 139.2 | $ 121.9 |
| Proceeds and debt reduction on disposals | 77.2 | 17.7 | 43.0 |
| Net decrease in non-cash working capital | – | 32.9 | 16.7 |
| Cash outflows | | | |
| Net increase in non-cash working capital | (3.2) | – | – |
| Additions to capital assets | (112.2) | (71.4) | (55.6) |
| Business acquisitions including debt assumed | (115.8) | (18.8) | – |
| Dividends to shareholders | (11.5) | (11.4) | (11.4) |
| Repurchase of shares, net of issuance and settlement of exercised stock options | (18.0) | (18.1) | (29.3) |
| Other | (2.5) | (5.0) | (5.1) |
| Net cash inflow (outflow) | (53.3) | 65.1 | 80.2 |
| Translation of foreign-denominated debt, mainly U.S. dollars | 74.6 | 4.3 | (29.8) |
| Decrease in net debt | $ 21.3 | $ 69.4 | $ 50.4 |

Non-cash working capital traditionally increases during the first few months of each year to accommodate increased customer activity following the slower year-end period, before again reducing through the year to its lowest point at year-end. Investment in non-cash working capital as at December 31, 2003 amounted to $57.1 million compared to $97.8 million and $140.4 million as at December 31, 2002 and 2001, respectively. The Company maintains a rigorous focus on its investment in non-cash working capital. The reduction in non-cash working capital was $83.3 million over the last three years. Days working capital employed were 15 at December 31, 2003 as compared to 22 in 2002.

Capital spending, which totalled $112.2 million in 2003 versus $71.4 million and $55.6 million in 2002 and 2001, respectively, was incurred in all divisions with a view to increasing capacity based on customers' requirements, implementing cost reduction programs and maintaining the existing business base. In 2003, the level of spending was significantly higher than in 2002 and 2001 in order to take advantage of new market opportunities, and to improve infrastructure and operating efficiencies. Depreciation and amortization of other assets amounted to $67.4 million compared to $75.8 million in 2002 and $73.4 million in 2001.

The current annualized dividend rate is $0.31 per Class A share and $0.36 per Class B share. The Company has historically paid out dividends at a rate of 20–25% of normalized earnings.

The Company had a Normal Course Issuer Bid (NCIB) in place, which is governed by the rules of the Toronto Stock Exchange. CCL's NCIB, which commenced on August 7, 2002, terminated on August 6, 2003. It permitted the repurchase of up to 20,000 Class A shares and 2.1 million Class B shares. In 2003, the Company repurchased 1,192,300 Class B shares at an average price of $17.39 per share. Cumulatively under this bid, the Company purchased 1,716,700 shares at an average price of $17.89. The Company has not renewed the NCIB. Proceeds from employees' and directors' stock options exercised during 2003 amounted to $2.7 million and $3.8 million in 2002.

## Accounting Policies

The above analysis and discussion of the Company's financial condition and results of operation are based upon its Consolidated Financial Statements that have been prepared in accordance with Canadian Generally Accepted Accounting Principles. A summary of the significant accounting policies used by the Company are set out in note 1 of the Consolidated Financial Statements. Significant changes made in accounting policies during the past two years and expected to be made in the 2004 financial year are commented on below.

Effective January 1, 2002, Generally Accepted Accounting Principles for the recognition, measurement, presentation and disclosure of goodwill and other intangibles changed. Under the new rules, goodwill is not amortized and the standard did not permit retroactive application. If the 2001 year results had been restated to exclude amortization of goodwill expensed under the old rules, the reported net earnings would have been $38.4 million and earnings per Class B share would have been $1.08. Reported earnings, earnings per share, book value per share and ratios such as net debt to total capitalization are affected by these changes in accounting for goodwill since January 1, 2002. Additionally, under the new rules, the goodwill associated with each operating segment must be tested annually for impairment and any deficiency recognized as an impairment loss. In 2002, the initial assessment resulted in an impairment charge of $125.0 million ($123.4 million after tax) related to the Container Division. As required under the rules, this initial non-cash provision was recorded as an adjustment to retained earnings effective January 1, 2002.

Commencing in the fourth quarter of 2003, the Company adopted the policy, retroactive to January 1, 2003, of expensing the fair value of vested stock options issued under its employee stock option plan. Details on issued employee stock options and the additional compensation costs that would have been recorded under the fair value method during 2003 and 2002 are set out in note 12 to the Consolidated Financial Statements.

Effective January 1, 2003, the Executive Share Purchase Plan loans amounting to $1.8 million have been deducted from shareholders' equity based on new accounting rules on share purchase financing. This accounting change cannot be applied retroactively. These loans are non-interest bearing and are secured by 150,000 Class B shares of the Company (quoted value at December 31, 2003 of $2.8 million). These loans have a ten-year term which start to expire in 2009 and are only repayable if the directors or officers elect to sell their Class B shares or if they leave the Company.

Accounting Guideline – 13, Hedging Relationships, establishes stringent, new criteria that must be met before hedge accounting can commence and is effective for the Company January 1, 2004. The criteria includes identification, designation and formal documentation of the hedging relationship and assessment of the effectiveness of the hedging relationship both at inception of the hedging relationship and on an ongoing basis over the term of the hedging relationship. The Company has developed documentation and policies in order to comply with these new requirements for 2004.

## Critical Estimates

The preparation of financial statements in conformity with GAAP, requires management to make critical estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities. The Company evaluates these estimates and assumptions on an ongoing basis, including but not limited to those related to inventories, redundant assets, bad debts, derivatives, income taxes, intangible assets, restructuring, pension and other post-retirement benefits, environmental liabilities, self insurance reserves, contingencies and litigation. Estimates and assumptions are based on historical and other factors believed to be reasonable under the circumstances. The results of these estimates may form the basis for the carrying value of certain assets and liabilities and may not be readily apparent from these sources. Reported results may differ, under conditions and circumstances that have changed from those assumed in the determination of these estimates. The impact on reported results and the potential impact and any associated risk related to these estimates are discussed throughout this Management's Discussion and Analysis document and in the notes to the Consolidated Financial Statements.

## Risks

The Company is subject to the usual commercial risks associated with being a supplier of goods and services to the non-durable consumer packaging industry. A number of these risks, which could have an adverse affect on the Company achieving its business plan, have been discussed earlier. They are:

(1) CCL's dependence on overall consumer confidence, disposable income and purchasing trends;
(2) price expectations by customers;
(3) consolidation within the retail and consumer products marketer base;
(4) reliance on key employees and the retention of an experienced, skilled workforce;
(5) dependence on consumer products companies continuing to outsource a portion of their manufacturing requirements;
(6) changes within the competitive environment, including offshore producers, and the Company's ability to be cost competitive;
(7) the Company's ability to control the costs of raw materials and/or pass these costs onto its customers;
(8) achievement of planned volumes through normal growth and successful renegotiation of current contracts with customers;
(9) delivery of planned benefits from cost reduction programs and recent restructuring efforts;
(10) the continued success in developing innovative packaging solutions;
(11) availability and cost of property and casualty insurance including the ability to recover cost increases from customers;
(12) negative translation effect of a strengthening Canadian dollar against currencies of the countries in which CCL operates;
(13) the ability of management to successfully integrate acquisitions into its structure, control operating performance and achieve synergies;
(14) usage of derivatives such as Interest Rate Swaps, forward foreign exchange contracts, and aluminum future contracts and options to improve financial performance; and
(15) structuring of its corporate organization to minimize and control its income tax costs.

The Company has significant operating bases in both the United States and Europe. In 2003, 61% and 19% of total sales came from the United States and Europe, respectively (2002 – 64% and 17%). Non-Canadian operating results are translated into Canadian dollars at the average exchange rate for the year. The Canadian average rate for US dollars was $1.40 in 2003, $1.57 in 2002 and $1.55 in 2001, and for UK sterling, was $2.29 in 2003, $2.36 in 2002 and $2.23 in 2001. The contribution from foreign business units in countries other than the United States and Europe in 2003 was 3.2% of CCL's total sales (3.6% in 2002) and 2.5% of CCL's total operating income (5.8% in 2002). The carrying value of investments in these countries as at December 31, 2003 was $45.6 million ($60.2 million for 2002). Devaluation of currencies in Mexico, Costa Rica and Thailand would not have a material negative effect on the consolidated financial results of the Company; however, operations in these countries are perceived to have greater political and economic risks.

The business is subject to numerous statutes, regulations, by-laws, permits and policies related to the protection of the environment and workers' health and safety. CCL maintains active health and safety, and environmental programs for the purpose of preventing injuries to employees and pollution incidents at its manufacturing sites. The continual increases in costs for healthcare, workers' compensation and general insurance may result in the Company, in some cases, self-insuring higher levels of coverage and, in all areas, focusing significant resources on the prevention of and management of claims.

The Company also carries out a program of environmental compliance audits and approvals of waste vendors. This program includes an independent third party pollution liability assessment. This audit program is designed to assess, over a five-year cycle, all manufacturing sites. The plants in the United States, Canada and Europe only use approved waste vendors and these vendors are covered under CCL's extensive environmental insurance program. The Company's in-house specialists manage all remediation projects and use the above environmental audit program to assess the adequacy of ongoing compliance at the operating level and to establish provisions, as required, for site restoration plans. The Company believes it has made adequate provision in its financial statements for potential site restoration costs and other remedial obligations. These site restoration reserves amounted to $9.9 million, $12.4 million and $13.2 million as at December 31, 2003, 2002 and 2001, respectively.

# Management's Responsibility for the Financial Statements

The accompanying consolidated financial statements and all information in this Annual Report are the responsibility of management. These consolidated financial statements have been prepared by management in accordance with Canadian Generally Accepted Accounting Principles. Financial statements are not precise since they include certain amounts based upon estimates and judgments. When alternative accounting methods exist, management has chosen those it deems to be the most appropriate to ensure fair and consistent presentation. The financial information presented elsewhere in this Annual Report is consistent with that in the financial statements.

CCL maintains financial and operating systems that include appropriate and effective internal controls. Such systems are designed to provide reasonable assurance that the financial information is reliable and relevant, and that CCL's assets are appropriately accounted for and adequately safeguarded.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board of Directors carries out this responsibility principally through its Audit Committee.

The Audit Committee is appointed by the Board of Directors and reviews the financial statements and Management's Discussion and Analysis; assesses the adequacy of the internal controls of the Company; considers the report of the external auditors; examines the fees and expenses for audit services; and recommends to the Board of Directors the independent auditors for appointment by the shareholders. The Audit Committee reports its findings to the Board of Directors for consideration when approving the annual financial statements for issuance to the shareholders.

These consolidated financial statements have been audited by KPMG LLP ("KPMG"), the external auditors, in accordance with Canadian Generally Accepted Auditing Standards, on behalf of the shareholders. KPMG have full and free access to, and meet periodically with, the Audit Committee.

D.G. Lang
*President and Chief Executive Officer*

S.W. Lancaster
*Executive Vice President*
*and Chief Financial Officer*

February 13, 2004

# Auditors' Report

To the Shareholders of CCL Industries Inc.

We have audited the consolidated balance sheets of CCL Industries Inc. as at December 31, 2003 and 2002, and the consolidated statements of earnings, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian Generally Accepted Auditing Standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2003 and 2002, and the results of its operations and its cash flows for the years then ended in accordance with Canadian Generally Accepted Accounting Principles.

Toronto, Canada
February 13, 2004

KPMG LLP
*Chartered Accountants*

# Consolidated Statements of Earnings

Years ended December 31, 2003 and 2002 *(in thousands of dollars except per share data)*

| | 2003 | 2002 |
|---|---|---|
| Sales | $ 1,518,421 | $ 1,684,939 |
| Income from operations before undernoted items | $ 168,826 | $ 184,056 |
| Depreciation, and amortization of other assets | 67,385 | 75,785 |
| Interest *(note 9)* | 23,040 | 30,859 |
| | 78,401 | 77,412 |
| Unusual items (net) *(note 5)* | 6,604 | 39,082 |
| Earnings before income taxes | 71,797 | 38,330 |
| Income taxes including tax on unusual items of $1,620 (2002 – $3,229) *(note 11)* | 18,764 | 16,511 |
| Net earnings | $ 53,033 | $ 21,819 |
| Earnings and diluted earnings per Class B share *(note 12)* | | |
| Net earnings | $ 1.64 | $ 0.65 |
| Diluted earnings | $ 1.61 | $ 0.64 |

# Consolidated Balance Sheets

As at December 31, 2003 and 2002 *(in thousands of dollars)*

| | 2003 | 2002 |
|---|---|---|
| **Assets** | | |
| Current assets | | |
| Cash and cash equivalents | $ 81,801 | $ 156,095 |
| Accounts receivable - trade | 166,951 | 209,018 |
| Other receivables and prepaid expenses | 30,071 | 27,262 |
| Inventories *(note 6)* | 114,147 | 136,941 |
| | 392,970 | 529,316 |
| Capital assets *(note 7)* | 442,778 | 507,959 |
| Other assets *(note 8)* | 58,160 | 30,409 |
| Goodwill *(note 2)* | 297,951 | 275,065 |
| | $ 1,191,859 | $ 1,342,749 |
| **Liabilities** | | |
| Current liabilities | | |
| Bank advances *(note 9)* | $ 7,567 | $ 462 |
| Accounts payable and accrued liabilities | 253,788 | 275,188 |
| Income and other taxes payable | 321 | 221 |
| Current portion of long-term debt *(note 9)* | 14,793 | 16,272 |
| | 276,469 | 292,143 |
| Long-term debt *(note 9)* | 404,471 | 505,640 |
| Other long-term items *(note 10)* | 25,029 | 32,674 |
| Future income taxes *(note 11)* | 67,004 | 75,296 |
| | 772,973 | 905,753 |
| **Shareholders' Equity** | | |
| Share capital *(note 12)* | 188,008 | 192,203 |
| Executive share purchase plan loans *(note 12)* | (1,841) | – |
| Contributed surplus *(note 12)* | 6 | – |
| Retained earnings | 227,149 | 199,437 |
| Foreign currency translation adjustment | 5,564 | 45,356 |
| | 418,886 | 436,996 |
| | $ 1,191,859 | $ 1,342,749 |

Commitments and contingencies *(note 13)*

Approved by the Board

D.G. Lang
*Director*

J.K. Grant
*Director*

# Consolidated Statements of Retained Earnings

Years ended December 31, 2003 and 2002 *(in thousands of dollars)*

| | 2003 | 2002 |
|---|---|---|
| Balance at beginning of year, as previously reported | $ 199,437 | $ 328,221 |
| Goodwill impairment *(note 2)* | – | (123,440) |
| Balance at beginning of year, restated | 199,437 | 204,781 |
| Net earnings | 53,033 | 21,819 |
| Repurchase of shares *(note 12)* | (13,827) | (14,379) |
| Settlement of stock options *(note 12)* | – | (1,343) |
| | 238,643 | 210,878 |
| Dividends | | |
| Class A shares | 758 | 711 |
| Class B shares | 10,736 | 10,730 |
| | 11,494 | 11,441 |
| Balance at end of year | $ 227,149 | $ 199,437 |

# Consolidated Statements of Cash Flows

Years ended December 31, 2003 and 2002 *(in thousands of dollars)*

| | 2003 | 2002 |
|---|---|---|
| Cash provided by (used for) | | |
| **Operating activities** | | |
| Net earnings | $ 53,033 | $ 21,819 |
| Items not requiring cash: | | |
| Depreciation and amortization | 67,385 | 75,785 |
| Stock options granted | 6 | – |
| Future income taxes | 7,994 | 4,675 |
| Unusual items | 4,245 | 36,878 |
| | 132,663 | 139,157 |
| Net change in non-cash working capital | (3,169) | 32,894 |
| Cash provided by operating activities | 129,494 | 172,051 |
| **Financing activities** | | |
| Proceeds of long-term debt | – | 6,195 |
| Retirement of long-term debt | (13,849) | (16,053) |
| Decrease in bank advances | (1,679) | (12,659) |
| Issue of shares | 2,707 | 3,753 |
| Repurchase of shares | (20,729) | (20,483) |
| Settlement of exercised stock options | – | (1,343) |
| Dividends | (11,494) | (11,441) |
| Cash used for financing activities | (45,044) | (52,031) |
| **Investing activities** | | |
| Additions to capital assets | (112,247) | (71,443) |
| Proceeds on disposals | 77,168 | 17,726 |
| Business acquisitions | (104,443) | (18,249) |
| Other | (2,439) | (4,858) |
| Cash used for investing activities | (141,961) | (76,824) |
| Effect of exchange rates on cash | (16,783) | 8 |
| Increase (decrease) in cash | (74,294) | 43,204 |
| Cash and cash equivalents at beginning of year | 156,095 | 112,891 |
| Cash and cash equivalents at end of year | $ 81,801 | $ 156,095 |

## 1. Summary of Significant Accounting Policies

### (a) Basis of accounting

The consolidated financial statements include the accounts of all subsidiary companies since dates of acquisition. Investments subject to significant influence are accounted for using the equity method. Investments that are jointly controlled are accounted for using proportionate consolidation.

### (b) Foreign currency translation

The Company records foreign currency-denominated transactions at the Canadian dollar equivalent at the date of the transaction and translates foreign currency-denominated monetary assets and liabilities at year-end exchange rates. Exchange gains and losses are included in earnings.

The Company's foreign subsidiaries are defined as self-sustaining. Revenue and expense items, including depreciation and amortization, are translated at the average rate for the year. All assets and liabilities are translated at year-end exchange rates and any resulting exchange gains or losses are included in shareholders' equity and described as foreign currency translation adjustment. The revaluation of foreign currency debt that hedges the net investment in foreign operations is also charged to the foreign currency translation adjustment. Gains and losses on the reduction of net investments in foreign subsidiaries are included in net earnings for the year.

Movement in the foreign currency translation adjustment during the year results from changes in the value of the Canadian dollar primarily in comparison to the U.S. dollar, the U.K. pound, the Euro, the Danish krone and the Mexican peso, and from changes in foreign denominated net assets.

### (c) Inventories

Raw materials and supplies are valued at the lower of cost and replacement cost. Work in process and finished goods are valued at the lower of cost and net realizable value. Cost is determined on a first-in first-out basis.

### (d) Capital assets

Capital assets are recorded at cost, which includes interest and certain start-up costs during the construction of major projects. Depreciation is provided over the assets' estimated useful lives, primarily on the straight-line basis, using rates varying from 2% to 10% on buildings, and from 7% to 33% on machinery and equipment.

Impairment losses for assets held-for-use where the carrying value is not recoverable are measured based on fair value, which is measured by discounted cash flows. Impairment losses on any assets held for sale are measured based on expected proceeds less direct costs to sell.

### (e) Intangible assets

Intangible assets, consisting primarily of the value of acquired customer contracts and relationships, are amortized over ten years.

### (f) Goodwill

Effective January 1, 2002, the Company adopted the CICA's Handbook Section 3062, "Goodwill and other intangible assets". Under this section, goodwill, representing the excess of the purchase price over the fair value of the net assets acquired in business acquisitions, is no longer amortized after December 31, 2001. Instead, the goodwill associated with each reporting unit is tested annually for impairment and any deficiency recognized as an impairment loss. Refer to note 2 for adoption of the new accounting standard regarding goodwill.

### (g) Revenue recognition

Revenue is recorded and related costs transferred to cost of sales at the time the product is shipped and ownership transfers to the customers. At that time, persuasive evidence of an arrangement exists and the price to the customer is fixed.

### (h) Employee future benefits

The Company accrues its obligations under employee benefit plans and the related costs net of plan assets. Pension costs are determined periodically by independent actuaries. Benefits other than pensions include life insurance programs and supplemental pension allowances. Benefits expense is charged to operations and includes:

*(i)* the cost of benefits provided in exchange for employees' services rendered during the year,
*(ii)* the amortization of past service costs and amendments over the expected average remaining service life of the employee group covered by the plans,
*(iii)* the interest cost of benefit obligations,
*(iv)* the expected return on fund assets,
*(v)* the amortization of cumulative unrecognized net actuarial gains and losses in excess of 10% of the greater of the projected benefit obligation or market-related value of plan assets over the expected average remaining service life of the employee group covered by the plans, and
*(vi)* the gain or loss on a settlement or curtailment.

### (i) Stock-based compensation plan

The Company applied the intrinsic value method of accounting for employee stock options granted prior to January 1, 2003 as permitted by CICA Handbook Section 3870 "Stock-based Compensation and Other Stock-based Payments". Under the intrinsic value method, consideration paid by employees on the exercise of stock options was credited to share capital and no compensation expense was recognized.

The Company adopted the fair value based method prescribed by CICA Handbook Section 3870 to account for employee stock options granted after December 31, 2002. Under the fair value based method, compensation cost is measured as fair value at the date of grant and is expensed over the award's vesting periods. In accordance with one of the transitional options permitted under the amended Section 3870, the new recommendations were applied to all stock-based compensation granted on or after January 1, 2003. Stock-based compensation granted prior to January 1, 2003 continues to be accounted for using the intrinsic value method. The description of the plan and the pro-forma effect of using this method are described in note 12.

### (j) Income taxes

Under the liability method of tax allocation, future income tax assets and liabilities are determined based on the differences between the financial reporting and tax bases of assets and liabilities, and are measured using the substantively enacted tax rates and laws that are expected to be in effect in the periods in which the future income tax assets or liabilities are expected to be settled or realized. A valuation allowance is provided to the extent that it is more likely than not that future income tax assets will not be realized.

### (k) Exit and disposal costs

The Company recognizes costs associated with exit or disposal activities at fair value in the period in which the liability is incurred. Special termination benefits are recognized at fair value at the communication date.

### (l) Derivative instruments

The Company's interest rate swaps are designated as hedges of the fixed interest rate risk on long-term debt. Periodic interest payments under the swaps are recorded as an adjustment to interest expense on the related debt. Gains from early termination of interest rate swaps are deferred on the balance sheet and amortized as an adjustment to interest expense on the related debt over the original contract life of the terminated swap agreement.

The Company's forward foreign exchange contracts are designated as hedges of anticipated future sales in foreign currencies. Gains or losses on maturity of the contracts are recorded as an adjustment to the related revenues.

The Company's forward contracts to purchase aluminum are designated as hedges of anticipated future aluminum purchases. Gains or losses on maturity of the contracts are recorded as an adjustment to the related purchase.

The Company's aluminum options are not designated as hedges and accordingly are recorded at fair value with gains and losses recorded in earnings.

### (m) Use of estimates

The presentation of financial statements requires management to make estimates and assumptions which affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses for the period reported. In particular, the amounts recorded for environmental matters, outstanding self-insured claims, depreciation and amortization of capital assets, and the valuation of goodwill are based on estimates. Actual results could differ from these estimates.

## 2. Change in Accounting Policies

Effective January 1, 2003, the Company adopted the CICA's Emerging Committee's Abstract EIC-132, "Share Purchase Financing". Under the Abstract, the Executive Share Purchase Plan loans have been deducted from shareholders' equity (note 12). Prior period statements have not been restated.

Effective January 1, 2002, the Company adopted the CICA's Handbook Section 3062, "Goodwill and other intangible assets" retroactively without restatement of prior periods. Under CICA's Handbook Section 3062, management determined that goodwill in the Container Division was impaired because the carrying value exceeded the implied fair value. As a result, an impairment loss of $125.0 million ($123.4 million after tax) has been reflected as a charge to 2002 opening retained earnings with a corresponding reduction in goodwill and future taxes. Any impairment arising subsequent to the transitional impairment test, as at January 1, 2002, will be recognized in income.

## 3. Acquisitions

In October 2003, the Company purchased the shares of Avery Dennison's European label converting business for $83.6 million. Manufacturing facilities are located in Broendby and Randers in Denmark and in Chilly-Mazarin in France.

| | |
|---|---|
| Working capital, non-cash | $ 4,264 |
| Non-current assets at assigned values | 25,571 |
| Intangible assets, primarily customer contracts and relationships | 19,640 |
| Goodwill | 41,707 |
| Future income taxes | (7,576) |
| Net assets purchased for cash | $ 83,606 |

In July 2003, the Company entered into a 51% controlled European joint venture with Pachem AG, a provider of state-of-the-art pressure sensitive, shrink sleeve and in-mold labels. As part of the consideration, the Company contributed its Avelin, France facility. Additional consideration of up to approximately $3 million will be payable in the future, provided the joint venture meets specified earnings and debt reduction targets. The joint venture, named CCL-Pachem Label GmbH has manufacturing facilities located in Hohonems, Austria; Rhyl, U.K. and Avelin, France; and is accounted for using proportionate consolidation.

| | |
|---|---|
| Working capital, non-cash | $ 1,598 |
| Non-current assets at assigned values | 8,086 |
| Goodwill | 7,626 |
| Net assets purchased | $ 17,310 |
| Cash | $ 8,526 |
| Long-term debt assumed | 8,784 |
| Total consideration | $ 17,310 |

In June 2003, the Company purchased Lucas-Insertco, which manufactures consumer instructional leaflets for the pharmaceutical industry, for $18.1 million. Manufacturing facilities are located in Baltimore MD and San German PR (see chart on page 42).

| | |
|---|---|
| Working capital, non-cash | $ 1,167 |
| Non-current assets at assigned values | 4,269 |
| Goodwill | 12,718 |
| Future income taxes | (89) |
| Net assets purchased | $ 18,065 |
| Cash | $ 15,111 |
| Promissory note | 339 |
| Assumed debt | 2,615 |
| Total consideration | $ 18,065 |

In January 2002, the Company purchased the pressure-sensitive label printing businesses of U.K.-based Jarvis Porter Group PLC for $18.8 million. Manufacturing facilities are located in Leeds and Lewes in the United Kingdom, Utrecht in The Netherlands and Paris in France.

| | |
|---|---|
| Working capital, non-cash | $ 4,211 |
| Non-current assets at assigned values | 14,599 |
| Net assets purchased | $ 18,810 |
| Cash | $ 18,250 |
| Long-term debt assumed | 560 |
| Total consideration | $ 18,810 |

## 4. Disposals

In August 2003, the Company sold four non-core business units in its Container Division to IntraPac L.P., a private Ontario Limited Partnership. Proceeds received were $71.5 million in cash and $12.5 million in equity of IntraPac L.P. CCL is entitled to additional consideration should future performance exceed specified benchmarks. The loss on sale was $3.1 million ($2.9 million after tax). The Company has significant influence over IntraPac L.P.; therefore, this investment is accounted for using the equity method.

In July 2003, the Company sold its Grimsby U.K. facility and the related liquid filling business. Disposition costs, including those related to consolidating the aerosol business currently manufactured in Grimsby to the nearby Scunthorpe plant, resulted in a loss of $1.7 million ($1.2 million after tax) including losses from the sale of capital assets.

In December 2001 and early 2002, CCL sold, in three separate transactions, its K-G Packaging business located in Concord ON which formulates and fills industrial aerosol and liquid products. Proceeds received in 2001 and early 2002 in connection with these transactions were $7.8 million and $17.7 million, respectively. The 2002 pre-tax loss of $0.2 million was recorded in unusual items. Included in income tax expense was $1.2 million as a result of the inability to recognize the full tax benefit of the loss in Canada.

## 5. Unusual Items

| | Division | 2003 | 2002 |
|---|---|---|---|
| Disposal of non-core business units *(note 4)* | Container | $ 3,085 | $ – |
| Disposal of Grimsby U.K. and related restructuring *(note 4)* | Custom Manufacturing | 1,721 | – |
| Repatriation of cash | | (582) | (3,028) |
| "Series 400" closure restructuring | Container | 2,380 | 2,425 |
| Write-down of investment in Miza Pharmaceuticals | | – | 37,279 |
| CPG Income Fund expenses | | – | 2,204 |
| Disposal of K-G Packaging *(note 4)* | Custom Manufacturing | – | 202 |
| | | $ 6,604 | $ 39,082 |

In 2003, the Company repatriated capital from certain foreign subsidiaries, which resulted in a net foreign exchange gain of $0.6 million (2002 – $3.0 million). Gains or losses on repatriation of capital from subsidiaries arise from the difference between the exchange rate in effect on the date the capital was returned to Canada, compared to the historical rate in effect when the capital was invested. The gain or loss on foreign exchange did not give rise to any tax effect.

In 2003, the Company sold its non-core "Series 400" product line of plastic closures which were manufactured in the Los Angeles facility. Restructuring costs of $2.4 million ($1.5 million after tax), related to the shutdown plans, were incurred in 2003. In December 2002, a provision of $2.4 million ($1.5 million after tax) for the capital asset impairment and inventory write-down related to this disposal was recorded.

In April 2001, CCL sold its non-core U.K. Custom Manufacturing pharmaceutical business to the U.K. subsidiary of Miza Pharmaceuticals, Inc. ("Miza"), a Canadian private company. CCL received subordinated convertible notes in the U.K. subsidiary and an equity interest in Miza. In September 2002, Miza Pharmaceuticals (U.K.) Limited, Miza's largest business unit, was placed under a court appointed administrator in the U.K. with the mandate to restructure and, if practical, sell this business unit as a going concern. In the fourth quarter of 2002, Miza Ireland Limited, a subsidiary of Miza, was placed into receivership. The indication of recovery was not favourable and, as such, a provision has been recorded in 2002 for the Company's cumulative exposure to Miza of $37.3 million ($33.8 million after tax).

On June 6, 2002, the Company announced that it would not proceed with the sale of its Custom Manufacturing Division to CPG Income Fund. The expenses incurred with the anticipated sale of this project amounted to $2.2 million. These expenses did not give rise to any tax benefit.

## 6. Inventories

| | 2003 | 2002 |
|---|---|---|
| Raw materials and supplies | $ 67,255 | $ 83,417 |
| Work in process and finished goods | 46,892 | 53,524 |
| | $ 114,147 | $ 136,941 |

## 7. Capital Assets

| | | 2003 | |
|---|---|---|---|
| | Cost | Accumulated Depreciation | Net Book Value |
| Land | $ 17,150 | $ – | $ 17,150 |
| Buildings | 132,795 | 46,696 | 86,099 |
| Machinery and equipment | 758,659 | 419,130 | 339,529 |
| Total | $ 908,604 | $ 465,826 | $ 442,778 |

| | | 2002 | |
|---|---|---|---|
| | Cost | Accumulated Depreciation | Net Book Value |
| Land | $ 18,442 | $ – | $ 18,442 |
| Buildings | 137,081 | 49,216 | 87,865 |
| Machinery and equipment | 936,565 | 534,913 | 401,652 |
| Total | $ 1,092,088 | $ 584,129 | $ 507,959 |

## 8. Other Assets

| | 2003 | 2002 |
|---|---|---|
| Self-insurance assets | $ 21,802 | $ 23,262 |
| Intangible assets, primarily customer contracts and relationships | 19,148 | – |
| Investment in IntraPac L.P. | 11,669 | – |
| Other | 5,541 | 7,147 |
| | $ 58,160 | $ 30,409 |

## 9. Total Debt

| | 2003 | 2002 |
|---|---|---|
| Bank advances | $ 7,567 | $ 462 |
| Current portion of long-term debt | 14,793 | 16,272 |
| Long-term debt due after one year | 404,471 | 505,640 |
| Total debt outstanding | $ 426,831 | $ 522,374 |

(a) The total borrowings at December 31, 2003 are denominated in the following currencies:

| | Local Currency | Canadian Equivalent |
|---|---|---|
| US dollars | $ 318,345 | $ 412,736 |
| Euros | € 5,824 | 9,481 |
| UK pound sterling | £ 1,749 | 4,047 |
| Danish krone | Kr 2,594 | 567 |
| | | $ 426,831 |

(b) The short-term operating lines of credit provided to the Company, and amounts used included in bank advances, at December 31 are:

| | 2003 | 2002 |
|---|---|---|
| Credit lines available | $ 38,104 | $ 26,970 |
| Credit lines used | $ 7,567 | $ 462 |

Operating facilities amounting to $8.8 million are secured by land, buildings and receivables with the balance being unsecured. All are at interest rates varying with LIBOR (London Interbank Offered Rate) or the prime rate.

(c) Total long-term debt is comprised of:

| | 2003 | 2002 |
|---|---|---|
| Unsecured senior notes issued March 1996, 6.66%, repayable on March 15, 2006 (US$120.0 million) | $ 155,581 | $ 189,304 |
| Unsecured senior notes issued September 1997, 6.97%, repayable in equal installments starting September 2002 and finishing September 2012 (2003 – US$84.3 million; 2002 – US$93.6 million) | 109,261 | 147,714 |
| Unsecured senior notes issued July 1998, 6.90% weighted-average, repayable in three tranches with repayments after 12, 15 and 20 years (US$110.0 million) | 142,616 | 173,529 |
| Other loans | 11,806 | 11,365 |
| | $ 419,264 | $ 521,912 |

Other loans include term bank loans, Industrial Revenue Bonds, capital leases and a mortgage at various rates and repayment terms.

**(d)** Interest Rate Swap Agreements

During 2002 and 2003, the Company entered into Interest Rate Swap Agreements in order to redistribute the Company's exposure to fixed and floating interest rates with a view to reducing interest costs over the long term.

| Notional Principal Amount | Currency | Interest Rate Paid | Received | Maturity | Effective Date |
|---|---|---|---|---|---|
| $60.0 million | US | 90-day LIBOR + 2.18% | 6.66% | March 15, 2006 | June 14, 2002 |
| $60.0 million | US | 90-day LIBOR + 3.49% | 6.66% | March 15, 2006 | December 13, 2002 |
| $42.1 million | US | 90-day LIBOR + 2.97% | 6.97% | September 16, 2012 | December 16, 2003 |

**(e)** The overall weighted average interest rate on total long-term debt factoring in the Interest Rate Swap Agreements at December 31, 2003 was 5.0% (2002 – 6.0%).

**(f)** Interest expense incurred is as follows:

| | 2003 | 2002 |
|---|---|---|
| Current | $ 1,430 | $ 1,509 |
| Long-term | 23,192 | 31,889 |
| | 24,622 | 33,398 |
| Interest income | (1,582) | (2,539) |
| | $ 23,040 | $ 30,859 |

Gross interest paid during the year was $ 32.7 million (2002 – $36.8 million).

**(g)** Long-term debt repayments are as follows:

| | |
|---|---|
| 2004 | $ 14,793 |
| 2005 | 17,644 |
| 2006 | 168,792 |
| 2007 | 12,867 |
| 2008 | 12,571 |
| 2009 and beyond | 192,597 |
| | $ 419,264 |

## 10. Other Long-Term Items

| | 2003 | 2002 |
|---|---|---|
| Environmental reserves, less current portion of $1,011 (2002 – $1,152) | $ 8,854 | $ 11,345 |
| Outstanding self-insured claims and reserves | 8,572 | 10,370 |
| Deferred gains | 7,603 | 10,959 |
| | $ 25,029 | $ 32,674 |

Environmental reserves represent management's best estimate for site restoration costs. Outstanding self-insured claims and reserves are actuarially determined. The actual timing of payments against these liabilities is unknown.

During 2001, the Company entered into a sale and leaseback of the land and building of the Los Angeles CA Plastic Packaging plant and sold its interest in an Interest Rate Swap Agreement. The proceeds were $25.1 million on the sale and leaseback and $7.6 million on the interest rate swap.

The deferred gain on the sale and leaseback of $9.9 million is being amortized over the term of the lease of ten years. The deferred gain on the Interest Rate Swap Agreement of $7.6 million is being amortized until March 2006 – the remaining term of the original swap agreement.

The short-term portion of these deferred gains is included in accounts payable and accrued liabilities.

## 11. Income Taxes

(a) Effective tax rate

| | 2003 | 2002 |
|---|---|---|
| Combined Canadian federal and provincial income tax rate | 33.3% | 33.3% |
| Earnings before income taxes | $ 71,797 | $ 38,330 |
| Expected income taxes | $ 23,908 | $ 12,764 |
| Increase (decrease) resulting from: | | |
| Realized benefit of foreign tax rate | (2,876) | (5,073) |
| Recognized income tax benefit of losses | (4,005) | (811) |
| Unusual items not recognized for tax | 542 | 9,011 |
| Other | 1,195 | 620 |
| Income taxes | 18,764 | 16,511 |
| Income taxes paid | $ 6,794 | $ 6,807 |

(b) The tax effects of the significant components of temporary differences giving rise to the Company's net income tax assets and liabilities are as follows:

| | 2003 | 2002 |
|---|---|---|
| Future income tax assets: | | |
| Non-deductible reserves | $ 27,016 | $ 22,730 |
| Alternative minimum tax credit carryforward | 3,160 | 14,872 |
| Amount related to tax losses carried forward | 25,873 | 33,792 |
| Future income tax assets before valuation allowance | 56,049 | 71,394 |
| Valuation allowance | (23,803) | (32,281) |
| Future income tax assets net of valuation allowance | 32,246 | 39,113 |
| Future income tax liabilities: | | |
| Capital assets, goodwill and other assets | 77,915 | 89,814 |
| Other | 21,335 | 24,595 |
| Future income tax liabilities | 99,250 | 114,409 |
| Net future income tax liabilities | $ 67,004 | $ 75,296 |

## 12. Share Capital

The Company's authorized capital consists of an unlimited number of Class A voting shares and an unlimited number of Class B non-voting shares.

(a) Issued

| | Class A | | Class B | |
|---|---|---|---|---|
| | Shares | Amount | Shares | Amount |
| Balance at January 1, 2002 | 2,463 | $ 4,686 | 31,669 | $ 189,868 |
| Issued for cash under employee share plans | – | – | 275 | 3,753 |
| Conversions from Class A to Class B shares | (16) | (30) | 16 | 30 |
| Repurchase of shares | – | – | (1,055) | (6,104) |
| Balance at December 31, 2002 | 2,447 | 4,656 | 30,905 | 187,547 |
| Issued for cash under employee share plans | – | – | 199 | 2,706 |
| Conversions from Class A to Class B shares | (5) | (9) | 5 | 9 |
| Repurchase of shares | – | – | (1,192) | (6,901) |
| **Balance at December 31, 2003** | 2,442 | $ 4,647 | 29,917 | $ 183,361 |

During the year, 1.2 million shares (2002 – 1.1 million) were repurchased for $20.7 million (2002 – $20.5 million). The excess of the purchase price over the paid-up capital of $13.8 million (2002 – $14.4 million) was charged to retained earnings.

Total share capital at December 31, 2003 was $188.0 million (2002 – $192.2 million).

**(b)** Share attributes

Class A

Class A shares carry full voting rights and are convertible at any time into Class B shares. Dividends are currently set at $0.05 per share per annum less than Class B shares.

Class B

Class B shares rank equally in all material respects with the Class A shares, except as follows:

*(i)* Holders of Class B shares are entitled to receive material and attend, but not to vote at, regular shareholder meetings.

*(ii)* Holders of Class B shares are entitled to voting privileges when consideration for the Class A shares, under a takeover bid when voting control has been acquired, exceeds 115% of the market price of the Class B shares.

*(iii)* Holders of Class B shares are entitled to receive, or have set aside for payment, dividends declared by the Board of Directors from time to time.

**(c)** Earnings per share

| | 2003 | | 2002 | |
|---|---|---|---|---|
| | Class A | Class B | Class A | Class B |
| Net earnings | $ 1.59 | $ 1.64 | $ 0.60 | $ 0.65 |
| Diluted earnings | $ 1.56 | $ 1.61 | $ 0.59 | $ 0.64 |

The weighted average number of equivalent shares issued and outstanding is 32,348,626 (2002 – 33,941,906).

Fully diluted earnings per Class B share computed using the treasury stock method reflects the dilutive effect, if any, of the exercise of share options and executive purchase plan loans outstanding at December 31, assuming they had been exercised at the beginning of the year. The weighted average number of shares outstanding used in computing diluted earnings per share is 32,993,625 (2002 – 34,595,686).

**(d)** Stock-based compensation plans

At December 31, 2003, the Company has two stock-based compensation plans, which are described below:

*(i) Employee Stock Option Plan*

Under the Employee Stock Option Plan, the Company may grant options to employees, officers and directors of the Company for up to 3,000,000 Class B non-voting shares. The exercise price of each option equals the market price of the Company's stock on the date of grant, and an option's maximum term is 10 years. Before December 2003, options vested 20% on the grant date and 20% each year following the grant date; the term of these options was generally 10 years. The options granted in December 2003 begin to vest a year from grant date, with 25% vesting one year from grant date and 25% each subsequent year; the term of these options was 5 years.

The Company accounts for employee stock-based compensation granted prior to January 1, 2003 using the intrinsic value method. If the fair value method had been applied to stock options granted between January 1 and December 31, 2002, additional compensation costs of $0.3 million (2002 – $1.0 million) would have been recorded, of which nil (2002 – $0.7 million) would have been recorded as an additional unusual expense. Pro-forma net income would have been $52.8 million (2002 – $20.8 million) and pro-forma earnings per share would have been $1.63 (2002 – $0.62) for the year. For options granted after December 31, 2002, the fair value method has been recognized in the financial statement resulting in an expense of $6 thousand with a corresponding offset to contributed surplus. The fair value of options granted has been estimated using the Black-Scholes model using the following assumptions:

| | 2003 | 2002 |
|---|---|---|
| Risk-free interest rate | 2.75% | 2.75% |
| Expected life | 4.5 years | 9 years |
| Expected volatility | 25% | 30% |
| Expected dividends | $ 0.36 | $ 0.36 |

A summary of the status of the Company's Employee Stock Option Plan as of December 31, 2003 and 2002, and changes during the years ending on those dates is presented below:

| | 2003 | | 2002 | |
|---|---|---|---|---|
| | Shares | Weighted-Average Exercise Price | Shares | Weighted-Average Exercise Price |
| Outstanding at beginning of year | 2,237 | $ 13.10 | 2,528 | $ 12.41 |
| Granted | 241 | 17.96 | 369 | 18.53 |
| Exercised | (199) | 13.58 | (275) | 13.65 |
| Exercised for cash | – | – | (275) | 13.36 |
| Forfeited | (27) | 12.02 | (63) | 11.48 |
| Expired | (30) | 17.50 | (47) | 16.14 |
| Outstanding at end of year | 2,222 | $ 13.54 | 2,237 | $ 13.10 |
| Options exercisable at end of year | 1,464 | $ 13.00 | 1,304 | $ 13.50 |

The following table summarizes information about the employee stock options outstanding at December 31, 2003:

| | Options Outstanding | | | Options Exercisable | |
|---|---|---|---|---|---|
| Range of Exercisable Prices | Options Outstanding | Weighted-Average Remaining Contractual Life | Weighted-Average Exercise Price | Options Exercisable | Weighted-Average Exercise Price |
| $ 8.35 – 12.00 | 547 | 5.3 years | $ 8.49 | 398 | $ 8.46 |
| $ 12.01 – 14.00 | 771 | 7.3 years | $ 12.53 | 546 | $ 12.53 |
| $ 14.01 – 16.00 | 136 | 5.6 years | $ 14.75 | 130 | $ 14.73 |
| $ 16.01 – 19.90 | 768 | 6.2 years | $ 17.93 | 390 | $ 17.72 |
| $ 8.35 – 19.90 | 2,222 | 6.3 years | $ 13.54 | 1,464 | $ 13.00 |

During 2002, 275,400 stock options that were granted in prior years under the Employee Stock Option Plan were settled for cash of $1.3 million based on the difference between the market value on the date of settlement and the exercise price of the option.

*(ii) Executive Share Purchase Plan*

Under the Executive Share Purchase Plan, the Company may provide assistance to senior officers and executives of the Company to invest in Class B shares of the Company in the open market by providing interest-free loans. The loans, secured by the Class B shares, have a ten-year term and are repayable only when the shares are sold or upon completion of employment.

Effective January 1, 2003, the Executive Share Purchase Plan loans have been deducted from shareholders' equity based on the EIC Abstract on "Share Purchase Financing". This accounting change cannot be applied retroactively. These loans are non-interest bearing and are secured by 150,000 Class B shares of the Company (quoted value at December 31, 2003 of $18.80 per Class B shares, totalling $2.8 million). In 2002, $1.8 million of loans were outstanding and were included in Other Assets.

## 13. Commitments and Contingencies

The Company has commitments under various long-term operating lease agreements. Future minimum payments under such lease obligations are due as follows:

| | |
|---|---|
| 2004 | $ 10,497 |
| 2005 | 8,574 |
| 2006 | 6,953 |
| 2007 | 5,118 |
| 2008 | 4,495 |
| 2009 and beyond | 10,122 |
| | $ 45,759 |

The Company and its consolidated subsidiaries are defendants in actions brought against them from time to time in connection with their operations. While it is not possible to estimate the outcome of the various proceedings at this time, the Company does not believe they will have a material impact on its financial position or results of operations.

## 14. Guarantees

In connection with the divestitures of certain operations, the Company has indemnified the purchasers against defined claims from the past conduct of the business and also provided certain guarantees in relation to the obligations assumed by the purchasers. It is not possible to quantify the maximum potential liability in relation to the indemnities. The maximum exposure under guarantees, if the purchasers were to default on their obligations, is approximately $2 million. The Company has fully provided for guarantees. The Company has recourse to the purchasers if the Company is required to make payment under the guarantees.

## 15. Employee Future Benefits

The Company maintains two defined benefit pension plans, several defined contribution pension plans, three supplemental retirement plans, and other post-employment benefit plans.

The expense for the defined contribution plans was $7.0 million in 2003 (2002 – $7.4 million).

Information on the defined benefit plans, including the defined benefit pension plans, three supplemental retirement plans and other post-employment benefit plans, is as follows:

| | 2003 | 2002 |
|---|---|---|
| Accrued benefit obligation: | | |
| Balance at beginning of year | $ 44,347 | $ 37,241 |
| Current service cost | 175 | 481 |
| Interest cost | 2,373 | 2,301 |
| Expenses and insurance premiums | (32) | – |
| Benefits paid | (868) | (1,597) |
| Actuarial loss | 1,451 | 2,693 |
| Reinstatements and transfers | 48 | 266 |
| Foreign exchange rate changes | (2,825) | 2,962 |
| Balance at end of year | $ 44,669 | $ 44,347 |
| Plan assets: | | |
| Fair value at beginning of year | $ 24,096 | $ 26,719 |
| Actual return on plan assets | 2,838 | (4,462) |
| Employer contributions | 413 | 24 |
| Benefits paid | (734) | (367) |
| Reinstatements and transfers | (696) | 266 |
| Foreign exchange rate changes | (1,829) | 1,916 |
| Fair value at end of year | $ 24,088 | $ 24,096 |
| Funded status – net deficit of plans | $ (20,581) | $ (20,251) |
| Unamortized net actuarial loss | 10,247 | 10,943 |
| Accrued benefit obligation | (10,334) | (9,308) |
| Valuation allowances | (166) | – |
| Accrued benefit obligation, net of valuation allowances | $ (10,500) | $ (9,308) |

Included in the above accrued benefit obligation for 2003 is $9.8 million (2002 – $9.1 million) for the unfunded supplemental retirement plans and other post-employment benefit plans.

The significant actuarial assumptions adopted in measuring the Company's accrued benefit obligations are as follows:

| | 2003 | 2002 |
|---|---|---|
| Discount rate | 5.80% | 5.74% |
| Expected long-term rate of return on plan assets | 7.06% | 7.07% |
| Rate of compensation increase | 3.58% | 3.54% |

The Company's net benefit plan expense is as follows:

| | 2003 | 2002 |
|---|---|---|
| Current service cost | $ 175 | $ 481 |
| Interest cost | 2,373 | 2,301 |
| Expected return on plan assets | (1,494) | (1,914) |
| Amortization of net actuarial loss | 387 | – |
| Net benefit plan expense | $ 1,441 | $ 868 |

In 2000, the Company changed one of the defined benefit plans into a defined contribution plan. Annuities were purchased in 2003 for the remaining defined benefit participants not transferring to the defined contribution plan which completed the conversion.

## 16. Segmented Information

The Company's reportable segments are generally managed independently of each other, primarily because of product diversity. Each segment retains its own management team and is responsible for compiling its own financial information.

The Company has three reportable segments: Custom Manufacturing, Container and Label. The Custom Manufacturing segment produces aerosol, liquid and solid stick products. The Container segment manufactures aluminum containers, and plastic tubes and closures. The Label segment produces pressure-sensitive self-adhesive labels, and designs and prints a wide range of high-quality paper and film, expanded content, promotional, coupon and in-mold labels.

Transactions with two significant customers in 2003 accounted for approximately $385 million (2002 – two customers for $365 million) of the Company's total revenue.

The accounting policies of the segments are the same as those described in the summary of accounting policies. The Company evaluates performance based on income from operations before interest, unusual items and income taxes, and based on the return on operating assets.

### (a) Industry segments

| | Sales | | Segment Income | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| Custom Manufacturing | $ 801,050 | $ 919,403 | $ 44,146 | $ 54,478 |
| Container | 294,802 | 351,241 | 31,291 | 29,728 |
| Label | 422,569 | 414,295 | 35,062 | 32,617 |
| | $ 1,518,421 | $ 1,684,939 | 110,499 | 116,823 |
| Corporate expense | | | 9,058 | 8,552 |
| Interest expense (net) | | | 23,040 | 30,859 |
| Unusual items (net) | | | 6,604 | 39,082 |
| Income taxes | | | 18,764 | 16,511 |
| Net earnings | | | $ 53,033 | $ 21,819 |

| | Identifiable assets 2003 | Identifiable assets 2002 | Goodwill 2003 | Goodwill 2002 | Depreciation and Amortization 2003 | Depreciation and Amortization 2002 | Capital Expenditure 2003 | Capital Expenditure 2002 |
|---|---|---|---|---|---|---|---|---|
| Custom Manufacturing | $ 314,400 | $ 378,670 | $ 35,562 | $ 40,509 | $ 19,178 | $ 20,205 | $ 29,087 | $ 22,306 |
| Container | 249,551 | 404,652 | 54,609 | 63,861 | 22,214 | 30,193 | 34,244 | 14,791 |
| Label | 520,949 | 403,977 | 207,780 | 170,695 | 24,866 | 24,421 | 48,810 | 33,704 |
| Corporate | 106,959 | 155,450 | – | – | 1,127 | 966 | 106 | 642 |
| | $ 1,191,859 | $ 1,342,749 | $ 297,951 | $ 275,065 | $ 67,385 | $ 75,785 | $ 112,247 | $ 71,443 |

### (b) Geographic segments

| | Sales 2003 | Sales 2002 | Capital Assets & Goodwill 2003 | Capital Assets & Goodwill 2002 |
|---|---|---|---|---|
| Canada | $ 307,913 | $ 329,173 | $ 93,521 | $ 79,522 |
| United States, Mexico & Other | 922,181 | 1,072,212 | 486,973 | 619,487 |
| Europe | 288,327 | 283,554 | 160,235 | 84,015 |
| | $ 1,518,421 | $ 1,684,939 | $ 740,729 | $ 783,024 |

## 17. Financial Instruments

### (a) Risk management activities

The Company has entered into forward foreign exchange contracts to hedge its foreign currency exposure on anticipated U.S. sales. The contracts oblige the Company to sell U.S. dollars in the future at predetermined rates. As at December 31, 2003, the Company had purchased contracts to sell US$6.0 million in the first quarter of 2004 at an average exchange rate of $1.34.

The Company enters into futures contracts to hedge the cost of aluminum used in its container manufacturing process against specific customer requirements. As at December 31, 2003, futures contracts for US$67 million of aluminum purchase commitments at an average price of US$1,439 per metric ton, extending to 2007, were outstanding. In addition, to lower the average aluminum cost over the long-term, the Company has written options to purchase 24,000 metric tons of aluminum at a weighted average strike price of US$1,435 per metric ton and to sell 12,000 metric tons of aluminum at a weighted average strike price of $1,500 per metric ton, extending to 2007.

### (b) Credit risk

Certain of the Company's financial assets, including cash and cash equivalents, are exposed to credit risk. The Company may, from time to time, invest in debt obligations and commercial paper of governments and corporations. Such investments are limited to those issuers carrying an investment grade credit rating. In addition, the Company limits the amount that is invested in issues of any one government or corporation.

### (c) Fair values

The carrying value of cash and cash equivalents, accounts receivable, other receivables, other assets, bank advances, and accounts payable and accrued liabilities approximates fair value due to the short-term maturities of these instruments.

The fair value of long-term debt is $464.6 million (2002 – $575.3 million). Fair value of long-term debt is determined as the present value of contractual future payments of principal and interest discounted at the current market rates of interest available to the Company for the same or similar debt instruments.

The forward foreign exchange contract rates, which have become favourable based on the forward exchange rates as of December 31, 2003, constitute unrecognized financial assets which have a fair value of $0.5 million.

The unrealized gain on the Interest Rate Swap Agreements as at December 31, 2003 amounted to $5.5 million.

Future aluminum contracts which have become favourable constitute unrecognized financial assets and have a fair value of $4.8 million. Aluminum options have been marked to their market value liability of $3.6 million.

# Eleven Year Financial Summary

*(in thousands of dollars except per share and ratio data)*

| | 2003 | 2002 | 2001 | 2000 |
|---|---|---|---|---|
| **Sales and Net Earnings** | | | | |
| Sales | $ 1,518,421 | $ 1,684,939 | $ 1,600,497 | $ 1,589,087 |
| Depreciation and amortization | 67,385 | 75,785 | 89,193 | 90,555 |
| Interest expense | 23,040 | 30,859 | 32,415 | 36,560 |
| Earnings before goodwill amortization | 53,033 | 21,819 | 38,348 | 39,452 |
| Net earnings | *53,033 | **21,819 | ***24,891 | ****26,654 |
| Net earnings per Class B share before goodwill amortization | $ 1.64 | $ 0.65 | $ 1.08 | $ 1.04 |
| Net earnings per Class B share | $ *1.64 | $ **0.65 | $ ***0.70 | $ ****0.70 |
| **Financial Position** | | | | |
| Current assets | $ 392,970 | $ 529,316 | $ 488,105 | $ 434,418 |
| Current liabilities | 276,469 | 292,143 | 264,519 | 243,660 |
| Working capital | 116,501 | 237,173 | 223,586 | 190,758 |
| Total assets | 1,191,859 | 1,342,749 | 1,454,991 | 1,392,820 |
| Net debt | 345,030 | 366,279 | 435,755 | 486,139 |
| Shareholders' equity | 418,886 | 436,996 | 563,704 | 558,201 |
| Net debt to equity ratio | 0.82 | 0.84 | 0.77 | 0.87 |
| Net debt to total capitalization | 45.2% | 45.6% | 43.6% | 46.5% |
| **Number of Shares** *(in thousands)* | | | | |
| Class A – December 31 | 2,442 | 2,447 | 2,463 | 2,465 |
| Class B – December 31 *(note 1)* | 29,917 | 30,905 | 31,669 | 34,204 |
| Weighted average for the year | 32,349 | 33,942 | 35,974 | 38,267 |
| **Cash Flow** | | | | |
| Cash provided by operations | $ 129,494 | $ 172,051 | $ 138,578 | $ 132,961 |
| Additions to capital assets | 112,247 | 71,443 | 55,595 | 61,086 |
| Business acquisitions | 104,443 | 18,249 | – | – |
| Dividends | 11,494 | 11,441 | 11,350 | 12,077 |
| Dividends per Class B share | $ 0.36 | $ 0.34 | $ 0.32 | $ 0.32 |

* After pre-tax unusual items – net loss of $6.6 million.

** After pre-tax unusual items – net loss of $39.1 million.

*** After pre-tax unusual items – net loss of $7.7 million.

**** After pre-tax unusual items – loss of $18.8 million.

***** After pre-tax unusual items – net gain of $4.7 million.

****** After pre-tax unusual items – net loss of $3.8 million.

*Note 1* Class B shares include outstanding exchangeable shares.

| 1999 | 1998 | 1997 | 1996 | 1995 | 1994 | 1993 |
|---|---|---|---|---|---|---|
| $ 1,568,875 | $ 1,469,195 | $ 1,283,192 | $ 1,151,546 | $ 979,318 | $ 933,226 | $ 830,264 |
| 84,210 | 75,710 | 56,464 | 45,790 | 37,651 | 35,448 | 33,035 |
| 35,642 | 35,195 | 23,583 | 18,653 | 11,952 | 8,884 | 10,899 |
| 66,371 | 55,942 | 48,766 | 44,131 | 35,011 | 30,272 | 8,934 |
| 53,630 | 44,394 | *****40,710 | 38,646 | 32,768 | 28,035 | ******6,103 |
| | | | | | | |
| $ 1.68 | $ 1.53 | $ 1.38 | $ 1.28 | $ 1.04 | $ 0.91 | $ 0.27 |
| $ 1.36 | $ 1.22 | $ *****1.16 | $ 1.13 | $ 0.98 | $ 0.85 | $******0.19 |
| | | | | | | |
| $ 447,403 | $ 429,990 | $ 456,793 | $ 313,361 | $ 266,204 | $ 250,514 | $ 287,670 |
| 298,663 | 261,251 | 417,115 | 256,711 | 208,493 | 218,703 | 236,265 |
| 148,740 | 168,739 | 39,678 | 56,650 | 57,711 | 31,811 | 51,405 |
| 1,422,455 | 1,412,908 | 1,243,175 | 842,254 | 780,079 | 651,004 | 650,919 |
| 512,601 | 506,057 | 521,347 | 234,444 | 242,848 | 133,875 | 66,739 |
| 564,298 | 571,417 | 449,880 | 394,104 | 357,867 | 335,287 | 313,621 |
| 0.91 | 0.89 | 1.16 | 0.59 | 0.68 | 0.40 | 0.21 |
| 47.6% | 47.0% | 53.7% | 37.3% | 40.4% | 28.5% | 17.5% |
| | | | | | | |
| 2,469 | 2,471 | 2,474 | 2,498 | 2,509 | 3,425 | 3,560 |
| 36,814 | 37,457 | 33,512 | 32,477 | 31,612 | 29,503 | 30,292 |
| 39,668 | 36,596 | 35,295 | 34,436 | 33,710 | 33,313 | 33,246 |
| | | | | | | |
| $ 124,705 | $ 97,393 | $ 108,657 | $ 73,359 | $ 60,430 | $ 49,677 | $ 20,912 |
| 91,109 | 98,955 | 72,522 | 43,172 | 44,743 | 49,235 | 62,253 |
| 19,768 | 129,949 | 274,227 | 12,397 | 128,222 | 10,045 | – |
| 12,174 | 10,259 | 9,797 | 9,542 | 9,374 | 9,156 | 9,175 |
| $ 0.31 | $ 0.28 | $ 0.28 | $ 0.28 | $ 0.28 | $ 0.28 | $ 0.28 |

# Corporate Governance

CCL has adopted formal governance practices in accordance with the guidelines published by the Toronto Stock Exchange (TSX). The guidelines set out recommendations concerning the responsibilities, composition, and practices of boards of directors and their committees.

Jon K. Grant

Donald G. Lang

Paul J. Block

Dermot G. Coughlan

Albert Gnat

Jean-René Halde

Stuart W. Lang

Lawrence G. Tapp

Tom Peddie

## Mandate of the Board

CCL's Board has a written mandate which includes among the duties and objectives of the Board; the approval and monitoring of the strategic, business and capital plans of the Corporation; succession planning for senior management; assessment of risk factors affecting the Corporation; and ensuring the integrity of the reporting and information controls that enable the Board to function effectively.

## Composition of the Board

The TSX recommends that the majority of directors on the Board be "unrelated" to the Corporation. At present, six of the Company's nine directors are unrelated, which means that they are not members of the management, and do not have any material interests or relationships with the Corporation other than as shareholders.

## Board Committees

The TSX recommends that committees of the Board generally be composed of outside directors (meaning directors who are not employees of the Corporation), a majority of whom are also unrelated directors.

The Audit Committee consists of five directors, four of whom are unrelated, and outside directors, and one of whom is an outside related director. Its mandate includes: the review of financial statements; the monitoring of appropriate accounting and financial system controls; and the evaluation of the external auditors.

The Human Resources Committee consists of four unrelated and outside directors. The mandate of this committee includes: the recommendation of executive compensation programs for all officers including the CEO; review of officers' performance; monitoring and managing the succession planning process; reviewing the appropriateness of directors' compensation; and evaluating the performance of the CEO.

The Nominating and Governance Committee consists of three directors, two of whom are outside and unrelated directors and one of whom is an outside, related director. The mandate of this committee includes: finding and recommending new directors; the orientation and education of new directors; the recommendation of directors for committee memberships; and the overall monitoring of the performance of the Board of Directors and its committees.

The Environment and Health & Safety Committee consists of three directors, two of whom are unrelated and outside directors, and one of whom is an outside, related director. The committee is responsible for reviewing the Corporation's policies and programs governing health, safety and environmental matters, monitoring the effectiveness of current management systems and recommending improvements as needed.

**For a complete discussion of CCL's corporate governance practices, please refer to CCL's Management Proxy Circular.**

# Directors, Officers and Members of the Committees of the Board of Directors

**Jon K. Grant,** *O.C., B.A.(Hon.), LL.D.*
*Chairman*

Jon K. Grant is chairman of the board of CCL Industries, and vice chair of Agricore United and a director of AXA (Canada) Insurance. He is also retired chairman and CEO of Quaker Oats Company of Canada Limited, retired chairman of Laurentian Bank, and past chair of the board of governors of Trent University. He is a former chairman of Scott Paper Limited and Canada Lands Company and is currently chair of the Nature Conservancy of Canada. Mr. Grant has served as a director of CCL since 1994.

**Donald G. Lang,** *B.A.(Hon.)*
*President & CEO*

Donald G. Lang became president and CEO of CCL in 1999. Previously, he was CCL's president and COO, after leading the CCL Custom Manufacturing Division in Chicago, IL for five years. A twenty-two year veteran of CCL, Mr. Lang has been a company director since 1991, is on the Advisory Committee of the Richard Ivey School of Business and on the Board of Governors for Junior Achievement of Central Ontario. Mr. Lang holds an Honours Bachelor of Arts degree from the Richard Ivey School of Business, University of Western Ontario.

**Stuart W. Lang,** *B.Sc. (Eng.)*
*President, CCL Label International*

Stuart W. Lang became president, CCL Label International, in February 2002. Previously he was president of CCL Label Canada/Mexico and has been a director since 1991. He has held senior positions throughout the Custom Manufacturing and Label Divisions since joining the Company in 1982. Prior to this, Mr. Lang played for the CFL's Edmonton Eskimos for eight years following his graduation from Queen's University in Chemical Engineering in 1974.

**Paul J. Block**

Paul J. Block is chairman and CEO of Proteus Capital Associates, LLC, an investment banking firm, principal of Sea Change Group, a private equity group and president of Versadial, a wholly owned division of Sea Change. Previously, Mr. Block was a senior consultant to Lehman Brothers, senior advisor to American International Group (AIG) and chairman and president of Revlon International. Mr. Block is a board member of the China Retail Fund and the Shanghai-Syracuse University International School of Business and is a member of the Advisory Board of the Syracuse University School of Management. Mr. Block has served as a director of CCL since 1997.

**Dermot G. Coughlan,** *F.C.C.A. – U.K.*

Dermot G. Coughlan is chairman and CEO of Derland Holdings Inc., a private investment holding company. He is also the former founder, chairman and CEO of Derlan Industries Limited. Mr. Coughlan has served as a director of CCL since 1991. He is a member of, and has served on, the board of the Chief Executives Organization, in addition to a number of community and private boards. He currently provides international consulting services to a variety of major industrial concerns worldwide.

**Albert Gnat,** *LL.B., Q.C.*

Albert Gnat is a senior partner at Lang Michener, a Toronto law firm. Mr. Gnat has served major public corporations for more than 30 years specializing in securities law, mergers and acquisitions, and finance transactions. A director of CCL since 1973, Mr. Gnat also serves on the boards of several other Canadian corporations including Leitch Technology Corporation, IKEA Limited, MDC Corporation Inc., Rogers Communications Inc., Rogers Wireless Communications Inc., and Vitran Corporation.

**Jean-René Halde,** *M.B.A., M.A.*

Jean-René Halde has been CEO of Experlead Corporation, an advisory service firm to senior management and Boards since September 2003. He has extensive experience as a CEO having assumed that role for the past 25 years at: Metro-Richelieu Inc., Atlantique Image & Son Inc., Culinar Inc., Livingston Group Inc. and Irwin Toy Limited. Mr. Halde is a member of the World Presidents Organization and the Institute of Corporate Directors, and has served as a director of CCL since 2001.

**Lawrence G. Tapp,** *LL.D.*

Lawrence G. Tapp retired as dean of the Richard Ivey School of Business in June 2003. He is an international chief executive officer as well as an innovative educator, and is skilled in initiating change and improving performance. A CCL director since 1994, Mr. Tapp was vice chairman, president and CEO of Lawson Mardon Group Ltd. from 1985 to 1992.

**Tom Peddie,** *FCA*

Tom Peddie became senior vice president and chief financial officer of Corus Entertainment in June 1999. Mr. Peddie also has extensive media experience both in broadcast and print, as president of WIC Western International Communication. He held the chief financial officer position at CTV Television Network and the Toronto Sun Publishing Corporation. Mr. Peddie previously held the position of chief financial officer for Campbell Soup's international operation in the U.S. Mr. Peddie is a chartered accountant and holds an Honours Bachelor of Commerce degree from the University of Windsor.

## CCL Officers

**Akhil Bhandari**
*Vice President, Information Technology, and Chief Information Officer*

**Paul Cummings**
*Vice President and President, CCL Custom Manufacturing*

**Gene Dorsch**
*Vice President and President, CCL Plastic Packaging*

**Jon K. Grant**
*Chairman of the Board*

**Steven W. Lancaster**
*Executive Vice President and Chief Financial Officer*

**Donald G. Lang**
*President and Chief Executive Officer*

**Stuart W. Lang**
*Vice President and President, CCL Label International*

**Geoffrey Martin**
*Vice President and President, CCL Label*

**Mary T. Roy**
*Vice President, Environmental and Regulatory Services*

**Bohdan I. Sirota**
*General Counsel and Secretary*

**Meldon H. Snider**
*Executive Vice President*

**Janis M. Wade**
*Senior Vice President, Human Resources and Corporate Communications*

**Rami E. Younes**
*Vice President and President, CCL Container*

**Richard Zakaib**
*Senior Vice President, Corporate Development*

# Shareholders' Information

## Auditors

KPMG LLP
*Chartered Accountants*

## Legal Counsel

Lang Michener

## Transfer Agent

CIBC Mellon Trust Company
P.O. Box 7010
Adelaide Street Postal Station
Toronto, Ontario
M5C 2W9
E-mail: inquiries@cibcmellon.com
Answer Line: (416) 643-5500 or
(800) 387-0825
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## Financial Information

Institutional investors, analysts and registered representatives requiring additional information may contact:

Steve Lancaster
*Executive Vice President and CFO*
(416) 756-8517

**Additional copies of this report can be obtained from:**

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M2H 3P8
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Fax: (416) 756-8555
Email: ccl@cclind.com
Internet: www.cclind.com

## Annual Shareholders' Meeting

The Annual and Special Shareholders' Meeting will be held on May 6, 2004 at 4:00 p.m.
TSX Conference Centre
TSX Auditorium
The Exchange Tower
130 King Street West
Toronto, Ontario

## Class B Share Information

Stock Symbol CCL.B

| Listed TSX | |
|---|---|
| Opening Price | $ 19.46 |
| Closing Price | $ 18.80 |
| Number of Trades | 12,568 |
| Trading Volume (shares) | 11,292,817 |
| Trading Value | $ 204,356,046 |
| Annual Dividends Declared | $ 0.36 |

| Shares Outstanding at December 31, 2003 | |
|---|---|
| Class A | 2,442,424 |
| Class B | 29,917,419 |

There are two classes of CCL shares. Class A shares are voting and Class B are non-voting shares. Share attributes of both classes are listed on page 47 of this report.

## CCL Custom Manufacturing

Paul Cummings, President
www.cclcustom.com

### Division Office

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(847) 823-0060

### Canada

CCL Custom Manufacturing
Rexdale Plant
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(416) 743-6255
(416) 740-7400
Liquids/Toothpaste

### United States

CCL Custom Manufacturing
Cumberland Plant
Cumberland, RI
(401) 333-4200
Aerosols/Solid Sticks

CCL Custom Manufacturing
Danville Plant
Danville, IL
(217) 442-1400
Aerosols/Liquids

CCL Custom Manufacturing
Memphis Plant
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Liquids/Solid Sticks

### United Kingdom

CCL Custom Manufacturing
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Scunthorpe
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Aerosols/Liquids

### Germany

CCL Rapid-Spray
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Aerosols/Liquids

## CCL Container

Rami E. Younes, President
www.cclcontainer.com

### Division Office

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### Canada

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### United States

CCL Container
Hermitage, PA
(724) 981-5444

### Mexico

CCL Container S.A. de C.V.
Cuautitlan Izcalli
Estado de Mexico
(525) 55-872-4518

## CCL Plastic Packaging

Gene Dorsch, President
www.cclplastic.com

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(310) 635-4444

CCL Dispensing Systems
Libertyville, IL
(847) 816-9400

CCL Plastic Packaging
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## CCL Label

Geoff Martin, President
www.ccllabel.com

### Division Office

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### Canada

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CCL Label
Winnipeg, MB
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Sales Office
CCL Label
St. Laurent, QC
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### United States

CCL Label
Shelton, CT
(203) 926-1253

CCL Label
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(704) 714-4800

CCL Label
Sioux Falls, SD
(605) 336-7940

CCL Label
Upland, CA
(909) 608-2260

CCL Label
Cold Spring, KY
(859) 781-6161

CCL Label
Memphis, TN
(901) 527-9400

CCL Label
Robbinsville, NJ
(609) 586-1332

CCL Label
Hightstown, NJ
(609) 443-3700

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